MULTINATIONAL CORPORATIONS AND UNITED STATES FOREIGN POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS

OF THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

NINETY-THIRD CONGRESS

ON

THE INTERNATIONAL TELEPHONE AND TELEGRAPH COMPANY AND CHILE, 1970-71

MARCH 20, 21, 22, 27, 28, 29, AND APRIL 2, 1973

PART 2
(Appendixes to Part 1)



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SUPPLEMENTAL BACKGROUND MATERIAL

SPEECH BEFORE THE CENTER FOR STUDIES OF DEMOCRATIC INSTITUTIONS—FUND FOR THE REPUBLIC

Houston, Tex., March 2, 1973.

THE MULTINATIONAL CORPORATION-A TRIAL BALANCE

BY SENATOR FRANK CHURCH

The multinational corporation is not a new phenomenon. Even before the 1930's, such companies as IBM, Esso, Shell, and Unilever had gone multinational. But it is in the period since the Second World War, that the multinational corporation has come to loom so large in international economics, and even more recently that its importance has penetrated the broad spectrum of American public opinon.

A heated debate is now underway over American trade and investment policy. At the center of this debate is the multinational corporation. The AFL-CIO demands restrictions on these corporations. Labor's Executive Council recently called for "a prompt full dress Congressional investigation of American corporations and banks which sell their country short in order to enhance their profits."

For their part, the corporations see themselves as the wave of the future, a powerful force for good, which, if left alone, will integrate the world's economy for the mutual benefit of mankind.

Caught up in the middle of the debate are the American people, bemused by the polemics emanating from both camps and hard put to disentangle fact from rhetoric.

Titan held the world on his shoulders, so the legend goes. Britain and Spain divided it by the weight of their gold and the power of their navies. France ushered in the age of mercantilism; Britain, the Industrial Revolution. The Meiji restoration in Japan wed the nation-state to massive national enterprise, and the United States romanticized capitalism into a way of life. Is the multinational corporation the device which will bring the barriers down, integrate the economy of the world, and usher in a new order? Is this, indeed, to be the age of the multinational corporation?

Let us try to put this momentous question into some perspective.

THE MULTINATIONAL CORPORATION-A POTENTIAL CONSTRUCTIVE FORCE

Ironically, in an era of steadily decreasing tariff barriers and mounting trade, direct foreign investment has come to replace trade as the single most important element in international economics. In 1967, world output from foreign-owned subsidiaries of multinational corporations totaled an estimated \$240 billion, while exports from the major industrial nations were valued at only \$130-billion. One projection estimates that the multinationals, which in 1968 accounted for roughly 23% of total world production, will by the end of the century account for over half.

The overwhelming portion—approximately two-thirds—of this foreign investment presently comes from the United States. By 1975, fully 35% of all Western non-U.S. production will come from American subsidiaries or American associated firms. Total U.S. international investments have grown at an average annual rate of 6% since 1950, jumping from \$54-billion in 1950 to \$167-billion in 1970. Since World War II, U.S. companies have established more than 8,000 directly owned overseas subsidiaries. Sales generated by U.S. investments abroad overshadow the value of our country's exports by a margin of 5 to 1, and this ratio is expected to rise to 9 to 1 by 1975. Already, fully 25% of total U.S. exports are being shipped to U.S.-owned overseas subsidiaries.

Multinational corporations have thus been in the forefront of the enormous expansion of international investment which has characterized the post World War II epoch. They have shown an impressive capacity to surmount obstacles to traditional export markets where trade barriers exist. The corporations leap frog these barriers, implant themselves behind them, and turn the barrier into an advantage for themselves. Unrestrained by parochial loyalties, the world is their oyster and they make investment decisions accordingly. It is not by accident that Jean Jacques Servan-Schreiver in his famous book, "The American Challenge", noted that the first companies to truly take advantage of the European Economic Community were not the European companies but the American-owned multinational corporations. Similarly, in Latin America, it is the multinationals which have the only real capacity to operate on a continental scale.

Not surprisingly, the rapid expansion of the American corporate presence in Europe has evoked a response from European companies, often stimulated and promoted by their own governments. Europe still harbors an ambigous attitude toward competition. The Treaty of Rome moves in the direction, partially, if not fully, of the American concepts of competition embodied in the Sherman and Clayton Acts. On the other hand, individual European government, largely in response to the American corporate challenge, are encouraging mergers of their home-owned companies in key sectors, such as computers, and even in combina-

tion with other European companies.

Moreover, this tendency is stimulated by the decision of European governments to place a greater percentage of their own procurement with European, rather than American, companies. American-owned multinational corporations have thus acted as a stimulus for the acceleration of European integration at the company level. We may expect the same tendency to occur in other parts of the world, as the American corporate presence grows.

In the past two or three years, for example, we have witnessed a dramatic change in the attitude of Canada and Australia to foreign, largely American investment. Both of these countries, traditionally proponents of an open door policy toward foreign investment, are now in the process of reversing gears and adopting new policies designed to limit investment from abroad. I need not dwell on the Latin American reaction, which is too well known to require further comment here.

But it would be a mistake to overdraw the picture of foreign resistance to the American corporate presence. For a highly palatable ingredient sweetens to sour sauce... the universal appetite for access to American technology and capital. The primary means by which this technology and capital is transferred, under our system, is not through government-sponsored foreign aid programs, but

rather through multinational corporations.

There are differences of opinion among countries as to whether the multinational corporation ought to be the major vehicle for such technology transfers, whether the cost of such transfers has been reasonable, and particularly with respect to the developing world, whether the technology transferred has been well adapted to local conditions. But there is no doubt that a monumental transfer of technology has taken place, and that it has occurred at a much faster rate than would have been true, but for the existence of these businesses.

Finally, multinational corporations have shown an amazing capacity to overcome ideological barriers. Today they are reaching through the Iron Curtain as

no government has even dreamed of doing.

This quality—which holds within it the tantalizing promise of a brighter future—forms the basis for an ecstatic prophesy by Samuel Pisar, author of "Co-Existence and Commerce," in recent testimony before the Senate's Subcommittee on International Trade:

The thesis I would ask you to consider is that the world has become caught up in an unprecedented and, in my opinion, wholesome, quest for economic integration. Inexorably, mankind is groping toward unity, not in the manner Wendell Wilkie envisioned, nor through the establishment of world government, but through the mundane, pragmatic, yet highly compelling proc-

esses of the marketplace.

I see the economic instincts of man—in the West and in the East—reaching out across artificially created political and ideological boundaries to join in a common cause: the promotion of peaceful commerce and industry. This development has enormous potential for the welfare and well-being of all humanity. Once peoples and governments become inextricably tied to one another by economic self-interest, the spectre of instability and war begins to recede.

Whatever its faults and abuses—and I do not wish to belittle them—the much maligned community of multinational corporations must be recognized as standing in the forefront of this process. Having helped to fuel a decade prosperity across the national frontiers of the West, it is now storming across

the ideological frontiers of the East.

If Pisar is right about the unifying effect of the multinationals in the world marketplace; if they are matchless in their ability to bring technological innovation, to develop management skills, to create jobs, to pay taxes, to expand trade, and to generate foreign currencies, what on earth remains to thwart them, or to rob mankind of their potential contribution to peace, progress and prosperity?
What is there? Why the new nationalism, of course—the counterforce to the

multinational turust of large corporate enterprise.

THE NEW NATIONALISM .

Why do I refer to it as the new nationalism? Since the Middle Ages, after all, the nation has been the dominant form of political organization. Individual citizens have long given allegiance to their respective national governments. What is different today is the proliferation of nations. Since World War II, United Nations membership has tripled. Many of these new members have only recently emerged from colonial tutelage, only to discover that political independence was often accompanied by a more subtle type of economic and financial dependence, which could be as binding as more formal political links.

Nor is this concern with economic and financial dependence limited to governments which have only recently achieved nationhood. There is an increasing concern, as well, in countries, like those in Latin America, which achieved political independence more than a century ago, but perceive themselves to have remained in a dependent economic and financial relation to the industrialized world. Regardless of when political independence was gained, this concern has, increasingly, focused around the role of the large multinational corporations in the econ-

omies of these countries.

These corporations have been the vehicles through which the resources of the developing countries, particularly in the extractive industries, have been developed. Copper in Chile has been synonymous with Kennecott and Anaconda; petroleum in Venezuela has meant Creole and Shell; Iran has been wedded to the major international oil companies known as the "Seven Sisters" since 1954. Bauxite in Guyana and Jamaica has been identified with the Aluminium Company of Canada and the Reynolds Aluminium Company of the United States.

In recent years, however, we have witnessed a rash of expropriations of the property of many of these companies without compensation, unliateral increase of taxes by some countries, and a general instability of contracts. These events are symptomatic of a changing balance of power between the companies and the developing host governments. An additional factor is the industrialized world's ravenous appetite for raw materials. The home countries of the corporations which are subject to these actions, increasingly, find themselves inhibited from the kind of retaliation which they have resorted to in the past. As a consequence, then, of this new nationalism and the changing circumstances which govern the relationship between the developing countries and the industrialized ones, we can expect a continuation, indeed, an intensification of this instability.

The developing nations are often insecure in their sense of nationhood; they are prone to be extremely sensitive to affronts to their sovereignty. That is why the publication of the so-called "Anderson Papers" in connection with the purported activities of the International Telephone and Telegraph Company in Chile, in the fall of 1970, created such a sensation, not only in Chile but elsewhere in the world. When President Salvador Allende Gossens of Chile spoke at the United Nations some months ago, and referred to these activities, condemning them as an infringement of Chile's political sovereignty, he was cheered enthusiastically

by most of the assembled delegates.

The Senate Foreign Relations Subcommittee on Multinational Corporations which I head is in the process of determining the facts of this case and it would be inappropriate for me at this time to comment in detail about this ongoing investigation. But what is significant is that even before the full facts of this case are established, there is a widespread assumption in many of these lands that a collaborative arrangement exists between American-owned multinational corporations and the CIA. If these companies are to continue to operate effectively abroad, then, they must, like Caesar's wife, stay above suspicion. In their own

self-interest, they, and the U.S. Government intelligence apparatus, must avoid any connection, let alone collaboration. There are a multitude of less incestuous

ways in which information desired by the United States can be obtained.

But if the forces of nationalism can be inflamed by activities of corporations abroad which are regarded as interference in the internal affairs of other nations, so, too, American home-grown nationalism can be aroused, with equally negative consequences for the corporations, by their neglect at home of employment and investment obligations. Numerous studies have now been published by the U.S. Department of Commerce, the Tariff Commission, the Emergency Committee for Free Trade, the United States Chamber of Commerce, all of which purport to represent that the multinational corporations create domestic jobs at a more favorable rate than local companies. The AFL-CIO, on the other hand, contends that this is not true, that multinational corporations are

net exporters of jobs from the United States.

What is one to believe? I am frank to say that I approach the data and the conclusions of all the parties to this dispute with great skepticism. The 900-page Tariff Commission Report may be the most comprehensive of the studies so far undertaken. But what are we to make of the following paragraph in the intro-

duction to that report?

The difficulties imposed by the procedures involved in the use of an unlike data base for the two bench-mark years were increased by the failure of the respondents to answer fully with respect to certain key data. In turn, these difficulties were magnified for the reason that such data were reported to the (Bureau of Economic Analysts) in confidence and, to prevent unauthorized disclosure, were released to the Commission in many cases only in the form of incomplete aggregated estimates.

The footnote to that paragraph, states, and again I quote:

Data on 1970 employment by the MNC's, for example, were lacking or only partially available for about 600 of the foreign affiliates and for about 30 of their parents in the sample; was about a third of the total data reported in 1970 was subject to disclosure considerations which necessitates numerous estimations.

Now, behind these rather arcane references to the limitations of the data base used in producing this 900-page report lies a fundamental question. In the post World War II era, American corporations have invested abroad, as I previously noted, in excess of \$100-billion. A recent study of the Joint Economic Committee indicated that they have received significant tax subsidies when compared to comparable treatment of American domestic corporations. They have received other significant aids from the U.S. Government in the form of investment guaranties when they invest in developing countries, which presumably, have unstable political conditions and, thus involve the risk of expropriation, inconvertability and other extraordinary hazards.

Yet, we are now told that there is no compensating obligation on the part of the corporations to provide thet relevant data which would enable us to arrive at a reasonable judgment as to whether their overall activities add to or subtract from domestic employment in the United States. This failure to disclose relevant information, except on the most restricted basis, can only feed the suspicion that the corporations have something to hide. It would be far better and, again, I emphasize in the interest of the corporations themselves, to have the facts out on the table so that the American people could then come to an informed judgment about this matter, rather than be subject to a barrage

of polemics which confuse, instead of illuminate, the issues.

This is the fundamental reason why the Senate Foreign Relations Committee decided to undertake a fall scale inquiry into the role of the multinational corporation and its relation to U.S. foreign policy and the domestic economy of the United States. The intent is not to conduct a witch-hunt but to determine, insofar as possible, the relevant facts and to lay out in an understandable form the alternative policies which the U.S. Government might follow with respect to the

activities of these corporations.

TO AVOID A CONFRONTATION

The time has, accordingly, come to determine whether we are on the road to an inevitable showdown between the forces of globalism, represented by the multinational corporation, and a resurgent nationalism. One witness has likened this developing confrontation "to the dispute which eight centuries ago pitted Henry II, King of England and France, against Thomas A'Becket, Archbishop of Canterbury. What was supreme, the temporal might of the national crown of Britain or the spiritual power of the multinational church of Rome? That contest ended

with murder in the cathedral."

It is possible that murder could occur again, this time, the murder of the multinationals. For despite their enormous growth and wealth, it is still an unequal contest. Armies march for national governments, whether large or small, and each of these governments possesses, in its sovereign right, the power to tax, to restrict, to discriminate against, or to nationalize foreign-owned businesses, or, indeed, to confiscate their properties.

As for the United States, we found a mechanism at the birth of our Republic for resolving the contest between church and state, enabling both to flourish. Our challenge today is to do as well in finding the course of reconciliation between the national interests of our countrymen as a whole, and the legitimate in-

terests of American-owned global enterprise.

RELEVANT PERSONALITIES IN THE ITT-CHILE CASE

International Telephone and Telegraph Corporation

Mr. Bob Berrellez, Vice President, Public Relations, ITT Latin America.

Mr. Harold Geneen, Chief Operating Officer and Chairman of the Board. Mr. Edward Gerrity, Senior Vice President, Corporate Relations.

Mr. Bernard Goodrich, Manager of Press Relations. Mr. John Guilfoyle, Vice President, Head of Western Hemisphere Division. Mr. Hal Hendrix, Director, Public Relations, Latin America Group.

Mr. Benny Holmes, ITT's Chile representative.

Mr. William R. Merriam, Vice President, head Washington Office.

Mr. John J. McCone, Director, ITT (former Director of the Central Intelligence Agency).

Mr. Jack Neal, International Relations Director, Washington, D.C. Mr. Felix Rohatyn, Director of ITT and partner, Lazard Freres & Co.

Mr. John Ryan, Director, ITT Information Services, Washington, D.C.

Chile

Mr. Jorge Alessandri Rodriguez, Candidate of the Conservative National Party in the 1970 presidential election.

Dr. Salvador Allende Gossens, Socialist, Candidate of Popular Unity Coalition

in 1970 presidential election, President of Chile since 1970. Mr. Eduardo Frei Montalvo, Christian Democrat, President of Chile 1964–1970. Mr. Gregorio Amunategui, Political Adviser and Executive Assistant to Chilean

Dr. Arturo Matte, Brother-in-law and Chief Adviser to Alessandri.

General Rene Schneider Chereau, Commander-in-Chief, Chilean Army, assassinated on October 22, 1970.

Mr. Radomiro Tomic Romero, Christian Democratic candidate in the 1970 presidential election in Chile.

General Roberto Viaux Marambio, former Brigadier General who was dismissed from the army in 1969 for leading a small insurrection of officers. Convicted of plotting the 1970 slaying of General Schneider.

United States Government

Mr. Robert Amerson, Assistant Director for Latin America, USIA.

Mr. William V. Broe, Chief of Clandestine Services, Western Hemisphere, Directorate of Plans, CIA. Mr. Fdward Korry, U.S. Ambassador to Chile during 1970 presidential election,

now President, Association of American Publishers.

Mr. Charles Meyer, Assistant Secretary of State for Inter-American Affairs in 1970-71.

Mr. Peter G. Peterson, formerly Assistant to the President for International Economic Affairs, and Secretary of Commerce in September-October 1970, now Ambassador-at-large.

Mr. Viron Vaky, Latin American Adviser to Henry Kissinger in 1970, now U.S. Ambassador to Costa Rica.

Institutions

The Ad Hoc Committee—on Chile—a group of Washington corporate executives organized in 1971 to pressure the U.S. government to take a tough stand against the expropriation of private U.S. holdings by the Chilean government. Chiltelco (Compania de Telefonos de Chile)—the Chilean telephone company 70% owned by ITT and expropriated by the Chilean Government in 1971. Council for Latin America—a group of 220 U.S. corporations who have sizable

investments in Latin America.

CORFO (Corporation de Fomento de la Produccion—the Chilean Government's development agency under whose auspices Chiltelco was placed following the

El Mercurio—Chile's most important conservative newspaper, opposed to Allende

in the 1970 elections.

OPIC (Overseas Private Investment Corporation)—a U.S. Government program which provides insurance for private U.S. investment in developing countries, against damages, war, expropriation, etc. Investments in Chile by ITT, Kennecott and Anaconda were insured by OPIC.

SUMMARY OF THE 1970 PRESIDENTIAL ELECTION IN CHILE-MARCH 20, 1973

1. September 4, 1970 Popular Election

Candidates:

(1) Dr. Salvador Allende Gossens, Socialist, candidate of the Popular Unity coalition of Communists, Socialists, Social Democrats, Radicals and dissident Christian Democrats.

(2) Jorge Alessandri Rodriquez, Independent, candidate of the right-wing

National Party, a fusion of the Conservative and Liberal parties.

(3) Radomiro Tomic Romero, candidate of the ruling Christian Democratic Party. (Christian Democratic President Eduardo Frei Montalvo was

prevented by law from succeeding himself.)

The Popular Unity candidate, Dr. Allende, a long-time Senator and founder of the Socialist Party, making his fourth try for the presidency, campaigned for a program of extensive land reform and the rapid nationalization of basic industries, banks, and communications systems, many of which were controlled by foreign capital. Shortly before the September 4 popular election, a Santiago newspaper published a list of 167 companies which Allende reportedly planned to nationalize, including Chilean holdings of Ford, IBM, ITT, RCA, the First National City Bank, Esso and several American copper companies.

The Christian Democrat, Mr. Tomic, a former Ambassador to the United States, campaigned for a continuation of Rrei's program of gradual "Chileanization" of key sectors of the economy—a sort of middle way between capitalism and

full socialism.

Conservative former President Alessandri was the only candidate to give wholehearted support to the private free enterprise system.

Results of the September 4 popular election: Votes.

Tomic (28.4 percent)______ Although Dr. Allende won with a margin of 39,000 votes, no candidate had an absolute majority. In such a case, the Chilean constitution requires that a joint session of Congress choose between the first and second place finishers.

With 80 of the 200 seats held by the Popular Unity coalition, and a large portion of the Christian Democrat's 75 votes expected to go to him as well, Allende was given a considerable edge in the Congressional runoff scheduled for October 24.

2. The Assassination of General Schneider

On October 22, General Rene Schneider, Commander-in-Chief of the Chilean Army was shot and critically wounded by a group of unknown assailants. He died three days later, and General Carlo Prat was named as his replacement. General Schneider was generally thought to have opposed any interference by the armed forces in the election process. The CIA and right-wing Chilean groups were accused by El Siglio, the Communist newspaper, among others, of being behind the assassination. Former Brigadier General Roberto Viaux, who had been dismissed from the Army in 1969 for leading a small insurrection of officers, and who was considered to be more conservative than Schneider, was later arrested and convicted of plotting the assassination.

3. The Alessandri Formula

On September 9, Alessandri announced that if elected by the Congress, he would immediately resign and call for new elections. This manuever would open the way for President Frei to run again. In a two way contest between Frei and Allende, many believed Frei would win. This plan became known as the "Alessandri formula." It failed to win sufficient support among Senators and Deputies and on October 10, Alessandri withdrew from the race.

4. The Congressional Election of October 24

In the October 24 Congressional election, Salvador Allende Gossens received 153 of the 195 votes cast to be confirmed as President of Chile. He was sworn in one week later.

PROPOSALS FOR A BASIC COMMUNICATIONS PROGRAM WHICH ENTEL'S POPULAR UNITY COMMITTEE HAS PRESENTED TO THE NATIONAL COMMAND OF THE CANDIDADY OF DR. SALVADOR ALLENDR—JULY, 1970

We understand as Basic Communications Program the statement of the principal objectives that the popular Unity plans to comply with in this matter during its Government. These objectives will be developed through an Integral Communications Plan and, as a previous measure, through an Immediate Communications Plan.

The Integral Communications Plan states total restructuring of the administrative and institutional organization and realization of a rational investment program making the best of existing installations, complementing through an adequate and analytical fiscalization by the planning unit of the system. The Plan will incorporate in its action full participation of the workmen, who will be the promoters and impellers of its development.

During the period which it will take to establish in detail the different mechanisms, provisions and regulations necessary to initiate the Integral Plan, an Immediate Plan will be made effective which will have the purpose of palliating the most urgent problems regarding communications services and prepare the necessary preliminary conditions to accelerate application of the Integral Plan.

necessary preliminary conditions to accelerate application of the Integral Plan.

This document contains, as an Introduction, a brief analysis of the present situation of the Communications Area, then enumerates the principal objectives of the Integral Plan and, finally, states the measures of immediate application.

1. INTRODUCTION

The Communications Area covers post, telephone, telegraph, telex, and in general all services and means which serve to carry information within short and long distance. In the institutional part it reaches the Direction of Post and Telegraph, the Cable Telephone Company (CTC), the Empresa Nacional de Telecommunicaciones S.A. (ENTEL), the Superintendency of Electrical Services of Gas and Telecommunications (SEGTEL) and several other related companies.

The Basic Government Program of the Popular Unity authentically shows the critical situation which the country is going through as a consequence of the ineptitude of the bourgeoisle to solve Chile's fundamental problems, carrying in this manner the country's economy to the almost hopeless situation of bank-ruptcy which reaches in a higher or lower level all of the economic areas of the country, not escaping in this factor the Communications Area and, particularly, the telephone area, where appear with a clear difference the same problems which affect the country's economy. Therefore, it can be relatively simple to outline a diagnosis based on the premises included in the Government's Basic Program. Premise 1: ". . . Chile lives a deep crisis that is shown in the economic and social stagnation in the generalized poverty and postponements of every type suffered by workmen, countrymen and other exploited classes."

It is not necessary to be a technician to recognize the delay and underdevelopment shown in the Communications Area, particularly regarding telephones, showing a totally insufficient provision and of poor quality, with the aggravating point of being poorly distributed, since the majority of the areas of workmen and countrymen absolutely lack this service. The seriousness of the shortage situation in the subject of telephone and telegraph services has contributed in the low rate of economic development in Chile; it must be stated in writing that according to present figures the percentage of families having a telephone are not more than

15 percent, a level which quantified according to international standards, means that Chile has 3.3 telephones per each 100 inhabitans as compared to an average of 6 which have countries of similar development. In addition, the country has witnessed the precarious conditions of communications systems during the catastrophes that has recently occurred. Finally, lack of a planning mechanism that would permit making rational the investments in Communications as corresponds to a public utility service, has made CTC handle its investments arbitrarily, principally concentrating them in the wealthier areas, leaving without service urban zones of over 25,000 inhabitants and large rural areas. In addition to the scarcity of service must also be considered its extremely high installation cost-at present amounts to almost one thousand escudos-and monthly rent-20 percent of the minimum monthly salary—which turn it practically into a deluxe article and only possible to be obtained by families that have an income over three minimum monthly salaries, as shown by questionnaires.

In the cost of Post and Telegraph, an organization recognized for its poverty, is observed, to such a point that its offices have been made popular as rats' nests and where failures in organization and personnel cause severe deficients in service such as losses and delay of correspondence to such a point, that the public in general has preferred to change the system and use private services which offer greater guarantees of timely delivery even though rates be overcharged several times. In addition, telegraph service has not reached the developed stage according to modern techniques, in spite of the fact that lately some new telex equipments have been purchased, as well as other automatic equipments which, with-

out valid reason, have not been used.

SEGTEL, the fiscalizing organization of the area, fulfills an absolutely different job within is very different, such as is the Secrtarila Office of Interior, without attributions, personnel and means which would have permitted it to control, at least partly, the activity of the companies.

Finally, ENTEL, the governmental corporation recently created, was born with the original sin of living with its development limited by CTC's decision, since as is well known, the urban networks fundamentally condition long dis-

tance traffic.

Premise 2: ". . . Chile is a capitalist country, depending from imperalism dominated by areas of the bourgeosie structural linked to foreign capital.'

This phenomenon is clearly observed in Communications when analyzing the procedure carried out by OTC, subsidiary of the commercial and financial monster called International Telephone and Telegraph Corporation (ITT), which for forty years has profited from national patrimony as a consequence of the one-sided contract signed in 1930 and which successive governments, be it due to negligence and/or complicity, have been unable to denounce and evict. This situation is aggravated by the operation of other subsidiaries of ITT such as ITT Communicaciones Mundiales S.A. (ITTCOM) and Compania Standard Electric (CSESAC) which has permitted these companies with the connivance and participation of apparently respectable Chileans, to operate with more impunity in the job of suctioning our wealth.

In effect, the Chilean Government signed on January 23, 1930 a contract-law with the Chile Telephone Company, subsequently Compania de Telefonos de Chile, which bound it for 50 years in conditions extremely advantageous for the Company and clearly attempting against the State. The most important

clauses of the contract are the following:

(a) The responsibility of deciding on investments was left in the hands of the Board of Directors of the Company (ITT).

(b) The right was assured of keeping its accounting in gold currency, and with an insignificant amortization rate.

(c) Concession for 50 years was assured.

The evident irrationality of these provisions added to the lack of development programs of telephony, as is natural, started to create serious trouble to the successive governments and public in general, that determined some actions such as creation of a parliamentary commission in 1945 which even proposed the Company nationalization.

Subsequently, on January 15, 1958 a new convenio was signed which in part modified and expanded the previous one, and pretended to control the Company in a more effective manner, but in practice this signified more franchises for it,

such as:

3

(a) Income which was "up to" 10 percent was affirmed "at" 10 percent. (b) 3 percent Advisory fees were established, imputable to investment, and of 1/2 percent imputable to operating expenses.

Signature of this convenio caused great general disturbance and as a consequence of this an investigation commission was formed at the House of Representatives which issued a final report accusing the Company. All this brought along new studies commissions, etc., that determined making a new convenio. The new convenio of February 6, 1965 which pretends to "Chileanize" CTC by

The new convenio of February 6, 1965 which pretends to "Chileanize" CTC by purchasing 46 percent of its shares, establishes once more provisions which are so unfavorable, that the Government did not send the bill to Congress in order to avoid public repudiation. Among these provisions, the following are

outstanding:

(a) New contributions. Since the investments of the expansion plan would be financed partly (70 percent) with the reinvestment of depreciation and part of the profits which naturally come from the users, jointly with direct contributions from these through purchase of shares and partly (30 percent), with credits guaranteed by the Government that, nevertheless, are considered as contributions of ITT and not of the former, as would be logical.

(b) The situation is maintained of supplies originating fundamentally from affiliates of ITT, discarding in practice the possibility of State control to verify

that these supplies be the most advantageous.

(c) Establishes that eventual purchase of 51 percent of the remaining shares

be made in cash.

Jointly, and as a consequence of the disastrous condition of telecommunications, it was agreed to create, in spite of CTC's opposition, a state entity to take charge of interurban and international communications, creating ENTEL. Evidently that measure was only a patch-solution, since technically long distance communications depend from the urban plants and, therefore, as of the start the Empresa was subject to CTC's decisions, which is just what has been taking place year by year.

Premise 3: "... In Chile the reforming and developing recipes which Alliance for Progress impelled and which Frei's government made its own, have not

been able to alter anything of importance. . . ."

In effect, in the subject of Communications, we find that this Government, as a manner in which to palliate the disastrous effect of the 1930 contract-law and its corresponding expansion (which practically did not alter it), of 1958, started already mentioned new negotiation through CORFO, to reach the so much boasted "Chileanization", so as to purchase jointly with the public 49 percent of the shares of the Company in a short-term plan which ended in 1970. Well now, half-way and as already explained, this 1965 convenio had to be modified leaving aside the public's participation in the purchase of shares and revising the annual targets, determining as new date the year 1971. This was made through a convention signed on October 6, 1967.

Nevertheless, up to date it has occurred that in spite of the different CORFO contributions which represent a value equivalent in shares of the order of 28 percent, only 3 percent of them have been compensated by ITT and delivered, which naturally has signified a loss to the national public treasury on account of less dividends and stock dividend, fact which of course has not been made public and which is a reason more than sufficient to constitute an investigating commission to reveal once more the muddy negotiations with which five Company

damages national interest.

Premise 4: ". . . Imperialist exploitation of late economies is made in many manners, through investments in mining and industrial activity, banking and commercial, by means of technological control which forces us to pay extremely high amounts in equipment, licenses and patents . . . of Chile, imperialism has taken away enormous resources equivalent to twice the capital installed in our country, formed along all its history. North American monopolies dominate important industrial branches and service branches, enjoy by-law privileges. . . ."

In the Communications field it is observed very well how Yanquee imperialism through ITT dominates widely the area's economy and, injuring our sovereignty, uses a number of tricks which permit it to take out of the country in addition to the already exorbitant profits which convenions generously signed grant the additional amounts that have contributed and contribute to increase the stripping

of our resources.

ITT takes out of the country national resources in a fraudulent manner by two procedures, covering its profits and operating surreptitiously through its subsidiaries.

CTC covers its profits in the following manners:

(a) When purchasing its equipment from other ITT subsidiaries for amounts higher than normal in the international market, unduly increases the value of

net investment. For the same reason, when CTC sold ENTEL the Santiago-Concession microwave network, the latter had to take over the debt that CTC had with Standard Elektrik Lorenz (ITT subsidiary) and pay, therefore, the overcharge which the latter had overcharged the former, with the aggravating fact that equipment had been physically depreciated due to having been piled up in the customs stores for many years.

(b) Advancing the incorporation date in the files of the new installations, with respect to cutting in service of them, since there is no control in this respect.

(o) General expenses imputable to investment are inpudently inflated.

(d) Finances its investments by means of credits granted by ITT imputing in its costs the respective interests, reducting from them taxes to be paid.

(e) Through account gambling originated by the guarantee it has to operate

(f) Imputing among its costs an item on account of assistance, which has never been effectively made.

(9) Charging to users the installation costs of telephones and lines, which it later increases in its assets. It must be mentioned that in the case of rural lines, substantial amounts are reached since the cost of each installation kilometer at present higher than E*5,000

In addition, the surreptitous operation of the subsidiaries permit, further more, to cover improper CTC profits, remitting abroad earnings not declared.

The sum of all these actions has permitted ITT through its subsidiaries to take

The sum of all these actions has permitted ITT through its subsidiaries to take out of the country prodigious amounts of money, very much above those effectively declared.

Summarizing, it can be said that the situation shown clearly indicates the roads to follow, which are analyzed below.

II. INTEGRAL COMMUNICATIONS PLAN

The Basic Government Program of Popular Unity states that "... united popular forces search for, as the central objective of its policy, to replace present economic structure, finishing with the power of national and foreign monopolist capital and of latifundium, to start construction of socialism ... the economic policy of the State will be carried on through the national planning system and the mechanisms of control orientation, credit for production, technical assistance, tax and foreign commerce policy, as well as through their own procedure of the governmental area of economy made up by companies which the State owns at present plus the companies to be expropriated. As the first measure, there will be nationalization of those basic riches which as the great copper mining iron, nitrate and other are in the hands of foreign capitals and of internal monopolies . . .", mentioning among them the Communications. Realization of objectives of economic policy of the State in this matter will be made through the Integral Communications Plan.

The Integral Plan will result from wide discussion of the problems that affect the country as a consequence of the inefficiency of communication services and the following basic objectives, some of them already included in the Basic Government Program, namely:

1. Free Chile from subordination to foreign capital

In Communications foreign capital is represented by International Telephone and Telegraph Corporation through its affiliated communications companies: CTC and ITTCOM.

The Popular Unity Government will nationalize those companies.

The communications area essentially depends from foreign supplies.

The Popular Unity Government will develop electronic industry and cable industry for the purpose of repairing this dependent situation and create an exportation industry.

Transform present institutions to restore a new State where workers and the people have real exercise of power and preserve, make more effective and deepen democratic rights and workers' conquests

The nationalized companies jointly with ENTEL and Posts will be restructured according to national organization schemes, that permit making more active the procedures and where workers have real participation in the process of taking decisions

The mentioned companies will form part of the area of State companies; the mere fact signifies for the workers maintaining their conquests, their con-olidation and increase.

3. Resolve the problems of the great national majorities

The Popular Government will elaborate a rational investment program that will permit within the shortest period, incorporating all of the Chilean people to the communications system, providing population centers and rural areas with telephones and expanding or replacing existing services so as to reach the minimum levels compatible with development of productive areas which the Popular Unity Government will demand.

With respect to workers of the Area, these will be benefited, furthermore, by the steps which the Popular Government will place in practice for all of the workers, by the dynamic development that the Communications Area will have and the Companies which comprise it, as a consequence of the sustained effort which they will have to face to comply with the mentioned program, all this generating wide range of opportunities for perfectioning and improving which is natural to find in companies under an expansion process.

4. Assure rapid and uncentralized economic growth tending to develop to a maximum productive forces

The Communications Area, jointly with the Transportation Area perform a catalysing role of great importance in economic development. The Integral Plan with its general targets: Become independent from control which is exercised over the Communications Area by foreign companies; transform present institutions into dynamic development organizations; and the realization of a rational investment program, will assure effective collaboration of the national communications system to the growth of economy in its entirety.

III. IMMEDIATE COMMUNICATIONS PLAN

The Popular Government will impel, for its urgency, the following steps of immediate realization:

1. Nationalization of foreign communications companies

The nationalization of ITT subsidiaries will be preceding by an exhaustive investigation to be carried out by an Intervention Commission to be appointed in this respect.

2. Transformation of present institutions so that workers exercise power

While the necessary legal instruments are perfected to restructure the administration of present institutions, the Popular Government will take the necessary steps so that immediately the workers have participation in the Boards of Directors or Advisory Boards under which the companies and organizations mentioned operate at present.

3. Solve the problems of the great majorities

As already analyzed in the Introduction, CTC's action sheltered by the negligence and/or complicity of the successive governments has signified considerable delay, very bad attention and hideous discrimination in the matter of communication services. Therefore the Popular Government will not await nationalization to be a law to provide with telephone service the population centers and other places in the country, which up to now have not had this service and for this end will force CTC to comply with existing provisions on this matter.

4. Assure economic, rapid and decentralized growth and that tends to develop to a maximum productive forces

Restructuring within the shortest possible period of the organizations of the area and immediately create a planning group centralized, in charge of deciding on the following matters:

(a) Priority of investments.
(b) Commercial coordination in order to take the maximum advantage of installations in operation.

(c) Targets to be reached and periods of development plans.

(d) Reorganization of the companies, all of which show in a higher or lower degree inefficiencies in their operation.

(e) Revision of rates and supply contracts.

(f) And finally, the study of measures tending to create the definitive organization of the communication companies and planning unit which will direct them and control them. This unit for the purposes of national planning will be the organization that will link the Area with the rest of national economy.

BEST COPY AVAILABLE

BANK OF AMERICA, March 10, 1971.

MEMORANDUM

To: Robert L. James. From: Ronald R. Raddatz.

On Friday, March 5, I attended a second meeting at the office of International Telephone and Telegraph regarding the situation in Chile. Others attending were Bethlehem Steel, Kennecott Copper, Dow Chemical, Pfizer, W. R. Grace, and First National City Bank.

Again the thrust of the meeting was for the application of pressure wherever possible in the U.S. government. ITT and Kennecott both had meetings with Kissinger's office and with the State Department. In addition ITT had a meeting at OPIC to review the status of their contracts on Chilean investments. They report that OPIC will try to use every technicality to avoid payment if possible. They are afraid that they will have to go to Congress for an appropriation to pay off the commitments they have in Chile. So companies with AID-OPIC contracts should review them closely and follow them to the letter.

ITT is meeting on March 8 with Allende regarding the annual review of the rate structure of their telephone company in Chile. Their agreement calls for annual increases if necessary to assure ITT of a 10% rate of profit. The at-

tached memo outlines ITT's approach at the meeting.

It was generally agreed that Latin America needs foreign sources of capital desperately and that the international banking organizations should make it clear that a healthy business climate is necessary to attract these funds. Also technical knowledge is needed to operate the threatened businesses and this cannot be derived from the local population at this time. This should be pointed out in all conversations.

The representative of Dow Chemical who is a Cuban stated that it is most important for U.S. government and business to take a firm clear position if they want to hold the respect of the Latin Americans. If they know what our position is and that we will back it up with action then we can do business.

RONALD R. RADDATZ.

CHÎLEAN-MARCH 8 CONFERENCE

The following is offered for possible use as guidance in the March 8 meeting with President Allende.

(1) Economy Minister Pedro Vuscovic met recently with a small group of Santiago businessmen for an informal and private—and revealing—discussion of national economic and financial problems and concerns.

(2) In a candid and forthright manner, Vuscovic spelled out official policy and objectives vis-a-vis private enterprise. This was a rate—if not the first—confrontation between a ranking Minister and top drawer businessmen in the most burning issues at hand.

(3) In essence, this is what Vuscovic laid out:

(a) The government recognizes the importance of price increases to the survival of private enterprise. Government policy thus far has been to oppose price increases. Still, profit levels could be maintained, if, in lieu of price or rate increases, government taxes, penalties, assessments, etc., and other operational overhead were reduced. In other words; alternate catskinning schemes without resorting to politically unpopular price hikes.

(b) The Allende government is not necessarily interested, at this point,

(b) The Allende government is not necessarily interested, at this point, in controlling private enterprise through nationalization, joint ventures, intervention or expropriation. But it would prefer control over corporate decisions on new investments, expansion, and general policy. (FY 1, in 1959 Che Guevara made a nearly identical pitch. He stressed that uncontrolled private enterprise resulted in a proliferation of investment in the same fields while ignoring others. State policy control was necessary, he said, to insure diversification and eliminate the ills of a mono-product (sugar) economy).

(c) The government will be flexible in the application of nationalization intervention or joint venture policy to private enterprise. Each case will be

dealt with individually.

(4) Vuscovic's session here and his Monday (February 22) remarks in Washington before the Alliance for Progress Committee (CIAP) suggest a softening of official policy toward private enterprise, but only temporarily. Vuscovic also told the businessmen the government will proceed with its socialization plans

and that within twenty years private enterprise would disappear from Chile.

(5) The consensus here in is that a mellowing of the official line is due primarily to two factors: (1) the administration is running short of cash; some evidence of this can be found in the sudden muting of propaganda to buy up private bank shares in order to acquire control of private banking institutions; (2) Because of the tight financial situation, Allende doesn't want to rock the boat in a manner that would imperil foreign credit sources.

(6) A related factor are the April municipal elections. The government wants no adverse foreign propaganda that will frighten the independent voter-at a time when Allende undoubtedly has been building up a large personal following he lacked before. A better than 37% performance (his margin in the presidential elections last fall) in the April vote can be translated by the government into a mandate. Most reliable sources say Allende is gaining ground and would pick up 47% today. There are no electoral polls active yet.

(7) A mellowing of official policy toward private business—if such turns out to be really the case and not just a symptom of some other political aberra-

tion—must be handled discretely. This is because private enterprise is anathema to the radical leftist and there are ample signs now of a tussle between mod-erate Marxists and the Mac-Castro types in the official woodwork.

(8) This is why, it was explained to us, in taking over the printing enterprise, Zig Zag, the government made the former owners sign a statement later, released to the public, saying they had relinquished all without pressure and under generous terms.

(9) Ambassador Korry is optimistic about the meeting. If we lay it out straight on the line for Allende, he says, we are likely to get a sympathetic response. The reason here again is the government's concern about its finances, rising unem-

ployment, and possible loss of foreign credit.

(10) Summing up, the word to us is that Allende will be waiting for us to make an offer of some kind that will not depend exclusively on a rate increase; it is too early and the indicators too tender to even assume that there has been, in fact, a softening of official policy; the fact remains that a social state is the main objective of the people in power and that they are determined to achieve their purpose one way or the other.

OCTOBER 6, 1972.

Memorandum to: Mr. Jack Blum. Subject: Mr. Ned Gearity.

The only contact I have ever had with Mr. Gearity was by telephone, on January 11, 1971 in connection with the International Economic Policy Association.

Mr. Ned Gearity, Sr. Vice President ITT is the prime corporate mover behind IEPA. At Gearity's urging, Mr. Walter "Jake" Lingle, retiring Executive Vice President of Proctor and Gamble and a friend of Mr. Tom Watson, Jr.'s, wrote Mr. Watson seeking IBM membership in IEPA.

Mr. Watson referred the matter to Mr. Maisonrouge who, in turn, passed it

to me for handling.

I made a thorough investigation and had discussions with our people here and with IBM Europe management. Our consensus was to decline membership in IEPA. Shortly after we informed IEPA of the decision, I received a call from

Mr. Gearity asking that we reconsider.

Lou Castaldi, then WTC Director of Government Relations in Washington, had in the meantime also been approached by Dr. Timothy Stanley, of IEPA, asking that we reconsider. Lou Castaldi called me and I explained our reasons for deciding against membership. Subsequently we reaffirmed to IEPA our decision not to join.

MILES CORTEZ.

1970 CALL CONTROL AND ACTION

Date	Time	Caller	Extension	Subject and action
•		Clair Yough		Transfer ISBA-list of schools interested Tex. U., U of K, Florida-Let's meet
Do	12:00	Vann's (TV)	516-482-3340	Can service set on Sat. A.M. (482-0939)
Do	2:54	Brien Seward	784-4705	Needs IBM ribbons Part No. 1136106 ink 312
Do	3:15	Mort Jaffe	215-666-7950	Needs IBM Purchasing Director Name—Mos for IBM—Referred to Mr. Moore Chg
Do	3:35	Bob Frothingham	914-967-4425	Job for Bob Wood at AMA??
Do	3:40	Clyde Edrington	765-7800	Dow Jones down 7,00 IBM 273 MSE 1034
Do	4:25	DÁG	2753	Real Estate Items for WTC Exec Comm 9/14
		Clyde Edrington DAG. Gordon MacKenzie	2605	JGM letter from Mr. Larin—France, Reinic Univ. Larin no interestill
Do	9:44	John Guilfoyle	PL-2-6000	
		Jim Peters	CO-5-5900	Lunch—Interested in working WTC—Appt with Witham
Do	10:05	Ron Schgman	202-833-8030	Chileans in Washington say if Alessandri Elected he would serve, then call Elections.
Do	11:10	Paul Massey	203-435-9778	Paul wants me to testify in Baxter Case— Cummings & Lockwood Attorneys, OK
Do	11:55	Bob King	628-4540	Communitype—GM BCOE—Proposal
Do	12:17	Todd Groo	2620	See Mr. Liggett who is proposing "World Peace News"
Do	12:20	Mr. Liggett	686-1069	See Mr. Liggett who will make Appt.
Do	1:40	Clair Vough	8-445-3300	Eastern Airlines-Newark-to Lex. 6:25 p.m.
D0	1:421	Paul Massey	203-435-9778	Morgan Ames will come to NY to talk me RE:
	2:001			· · · · · · · · · · · · · · · · · · ·

1 Call back.

Mr. MILES CORTEZ, IBM World Trade Corporation, 821 United Nations Plaza, New York, N.Y.

DEAR MR. CORTEZ: Thank you for your letter of November 6 and the attached material. Your prompt cooperation is greatly appreciated.

Careful study of the materials you submitted suggest that it would be of assistance to the Subcommittee if you would make available the following additional information:

(1) All of your telephone logs for the period September 1, 1970, to December 1, 1970.

(2) All communications from Chile which were routed to you during the period August 1, 1970, to December 1, 1970.

Should the material prove to be too voluminous, we would be happy to make arrangements to examine the documents in your office at your convenience.

Thank you again for your cooperation.

Sincerely.

JACK A. BLUM, Subcommittee on Multinational Corporataions.

> IBM WORLD TRADE CORP., New York, N.Y., November 30, 1972.

Mr. JACK A. BLUM, Subcommittee on Multinational Corporations, U.S. Senate Committee on Foreign Relations, Washington, D.C.

DEAR MR. BLUM: This is in response to your November 14, 1972 letter and your recent discussions with our Washington office.

As you requested, I have examined my telephone log for the period September 1 to December 1, 1970 and found only one additional entry dealing with either ITT or Chile. That entry is for a call from Mr. John Guilfoyle of ITT, dated September 29, 1970, and a copy is attached.

Although I first met Mr. Guilfoyle in Brazil approximately eight years ago, I have talked with him on only 3 or 4 occasions since then principally in connection with general business conditions in Latin America.

I do not have a clear recollection of this particular conversation and my notes do not recall very much to me. I believe the note about Peru and the defectors was a reference to an article in the Peruvian press. I cannot add anything to my notes with respect to Schneider and cannot recall what was said about him.

As we discussed during our meeting in New York, I have no responsibility for following political activities in Latin America. My job as Manager of Corporate

Support Programs is essentially to review and staff requests from philanthropic organizations for financial assistance. The conversation with Mr. Guilfoyle did not relate to my area of responsibility, and I cannot recall why he called me. I'm sorry I cannot provide any additional information, but I did not attach any significance to the call and this is all I can remember about it.

As you requested, I also reviewed my correspondence files for the period August 1 to December 1, 1970 and did not find any correspondence relating to your area of interest.

Very truly yours.

MILES CORTEZ. Manager, Corporate Support Programs.

1970 CALL CONTROL AND ACTION

Date	Time	Caller	Extension	Subject and action
Sept. 29	11:35	D. Haberman	988-7282	Would Mr. Jones consider WTC support to Int'l Science Foundation.
Do	12:00	£. S. Groo	2620	
Do	12:05	Fisher	6246	Black Achievers Ir Program (Call CHO-Sher)
Do	1:17	Tom Liggett	686-1069	World Peace News will go to work for Soc. Sec. in Washington.
Do	1:37	Ed Smith	4090	
00	2:35		PI _2_6000	IT&T-Chile-Salnels Military Council Peru.
_ Do	4:00	Bob Silva	7182	10 Defodors Borrowing Resolutions.
00	4:10	Clyde Edrington	765-7800	
00	4:10 4:45	CSC	215-493-4535	
Do	5:00	Nancy Laws	628.0440	ET for fund for Multinational Met Ed
Do	5:10	R. A. Bennett	3601	ET for fund for Multinational Mgt Ed. Council of the America Macco Polo 7:00 p.m.
	9:07	CCC	215-493-4535	Will be been at 9:00 p.m.
Sept. 30	9.07	CSC		Will be home at 8:00 p.m.
Do	9:17	Jim Peters	265–5900	4550 Re: Allen Electric.
Do	9:39	Sumner Gorman	PL-8-6800	Re: Jim Peters.
Do	10:24	Clyde Edrington		Murphy oil.
Do	10:52	CSC II		Miles II Denyer Ski Plans.
Do	11:10	George Grav	(1)	EPA meeting of representative Cos Decline
••••••	10		(-)	EPA meeting of representative Cos.—Decline Brussels reiterated Oct. 15 WTC position

¹ Washington, D.C.

DEPARTMENT OF STATE, Washington, D.C., March 15, 1973.

Hon, FRANK CHURCH U.S. Senate, Washington, D.C.

DEAR SENATOR CHURCH: I am replying to your letter of March 1, 1973 addressed to Charles Meyer requesting data on loans made to Chile. As you know, Charlie left the Department as of March 2, 1973.

The enclosed tables provide information on loan authorizations, disbursements and repayments which have been made or received, or are projected to be received, by the Agency for International Development (A.I.D.), the Inter-American Development Bank (IDB), and the International Bank for Reconstruction and Development (IBRD). The information has either been drawn from loan statements of the lending agencies or provided directly by the agencies. The IDB did not have projected interest repayments beyond CY 1973. These repayments could probably be expected to decline gradually from year to year.

The data on loan repayments received by the lending agencies do not include the amounts that were due and not repaid by the Chilean Government. With respect to A.I.D., only a few repayments were received after the Chilean Government declared a moratorium on debt service repayments in November 1971. As of December 31, 1972 Chile owed A.I.D. \$10,195,000 in overdue interest and amortization repayments, of which the dollar equivalent of \$57,000 was repayable in escudos. A portion of this unrepaid amount is subject to the debt rescheduling which was agreed to in principle by the U.S. and the other Paris Club creditors in April 1972. The bilateral talks with Chile to implement that agreement have not yet been concluded. The Paris Club met again in late January 1973 to consider Chile's economic situation and its 1973 debt obligations. The creditors decided to meet again later in the year following a fact-finding mission to be undertaken by the IMF.

I hope that this information will be of use to you in your investigation. Sincerely yours.

> JOHN HUGH CRIMMINS. Acting Assistant Secretary.

LOANS AUTHORIZED OR APPROVED DURING FREI ADMINISTRATION (NOV. 4, 1964, THROUGH NOV. 3, 1970)

[Amounts given in all tables are thousands of dollars or dollar equivalents. Figures include dollar equivalents of escudos, which are also indicated in parentheses]

Amoun authorize	Date authorized	Loan title
		I. AID
80,000	Dec. 2, 1964	Program. Cooperative Development Bank Fertilizer Imports
3, 650 3, 600	June 26, 1965	Cooperative Development Bank
3,600	June 29, 1965	rertilizer imports
80,000	Jan. 27, 1966	Program
5 267 /5 267	Mar. 10, 1900	Private sector imports Project assistance
10,000 5,267 (5,267 4,455 (4,455	do	roject assistance udahuel airport Liquid carbonic de Chile feasibility studies ducation sector ssential imports
64 (64)	June 2, 1967	liquid carbonic de Chile
2,500	June 13, 1967	easibility studies
10 000	June 29, 1967	ducation sector
15, 000 23, 000 627 (627) 16, 300	Oct. 18, 1967	ssential imports
23,000		ariculture sector Alimentos purina de Chile
627 (627)		
20, 000	Ans 20 1968	Program
10,000	June 27, 1969	Agriculture sector
2,500	June 30, 1969	iuman resources development
15,000	Oct. 18, 1969	Togram griculture sector tuman resources development Petrochemical Industry
301, 963 C10, 413		Total
Amount approved	Date approved	Purpose —
		11. 1DB
2,000	Mar. 11, 1965	fousing
2,000 3,000 (1,090) 8,351 (350)	Aug. 12, 1965	Preinvestment
8, 351 (350)	2201 22 1005	adalae
1,200 (450)	Nov. 4,1965	roustry deficulture Mater and sewerage
1,500		Agriculture
2 500 (520)	Dec. 14,1903	Mater and sawerage
2,500 (539) 12,050 (3,050) 5,000 (2,200) 15,000 (1,500)	Jan. 6,1966 Apr. 24,1966	ducation lousing ducation
5,000 12,200	May 12, 1966	ducation
15,000 (1,500)	Jun. 16, 1966	ransportation
11,000 (2,500)	Sept. 15, 1966	Fransportation
	Apr. 13, 1967	Education
19, 208 (3, 030)	June 1,1967	nduştry
6,000 (1,000)	Aug. 3,1967	10using
680 3, 608 (900)	Aug. 24, 130/	Francos della
6, 886	Nov 2 1967	
6, 886 2, 300 (800) 9, 575 (3, 000) 20, 000	fulv 18 1968	lousing Ousing Transportation Industry Agriculture
2,300 (800) 9,575 (3,000)		
20,000	Apr. 8, 1969	DoDo.
15, 169 (4, 000)	July 10, 1969	Do
8,500 (4,000) 6,500 (880)	do	lectric power. Fransportation.
6,500 (880) 400 (120)	UCT. 15, 1969	ransportation
12 540 (120)	000 30, 1909	1911163(IIIIIII
12,540 3,000 (1,500)	Mar. 12, 1970	Transportation Preinvestment ndustry Water and sewerage.
192, 457 (31, 659)		Total
	Date agree-	
Amount of agreement		
		III. BIRD
4, 400 2, 750	Feb. 12, 1965	Indela nawar
2, 750	Oct. 6, 1965	ducation.
60.000	Dec. 23, 1966	lectric power
11,600	Sept. 19, 1968	loads. ducation. Do
	MULLI 43, 13/1	.uv-guvilaaaaaaaaaaaaaaaaaaaaaaaaaaaaaaaaaaaa
1,500 7,000	May 7 1970	na .
1, 500 7, 000 10, 800	- may /, 13/U	Do

Date agreement signed.
 Approval dates not available.

Loans Authorized or Approved During Allende Administration (Nov. 4, 1970, to present)

I. A.I.D.—None. II. IDB.

Purpose	Date approved	Amount approved
Education	Jan. 14,1971	4,600 (1,960) 7,000 (2,730)
Education	Jau: 14'13\1	7,000 (2,730)
Total	······	11,600 (4,690)

III. IBRD-None.

Disbursements During Allende Administration (December 31, 1970, through (Dec. 31, 1970, through Dec. 31, 1972)¹

I. A.I.D.—5,570. II. IDB—54,290 (9,526).

III. IBRD-26,179.

Amortization and Interest Repayments Received During Allende Administration (Dec. 31, 1970, through Dec. 31, 1972)1

	Amortization	Interest	Total
I. AID	6, 015 (2, 459) 28, 781 (1, 200) 12, 310	6,912 (1,248) 15,380 (442) 12,210	12, 927 44, 161 24, 520 24, 520 24, 520

Additional amounts were due but unrepaid following the declaration of a moratorium on debt service repayments by the Chilean Government in November 1971.
3 Approximate.
3 Includes commissions and other charges.

PROJECTED AMORTIZATION AND INTEREST REPAYMENTS-1973 THROUGH 1978 1

	neifesitromA	Interest	Total
I. AID: 1973: 1974: 1975: 1976: 1977: 1978: 1979: II. IDB: 1973: 1974: 1975: 1976: 1976: 1977: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1978: 1979:	6, 855 (1, 537) 8, 305 (1, 476) 10, 662 (1, 435) 13, 944 (1, 710) 15, 854 (1, 787) 16, 621 (1, 821) 17, 888 (1, 570) 18, 150 (642) 16, 880 (530) 18, 739 (540) 17, 198 (550) 17, 110 (560) 14, 394 (404)	7. 200	12, 778 (2, 685) 14, 174 (2, 290) 17, 157 (2, 293) 21, 445 (2, 506) 24, 367 (2, 517) 24, 994 (2, 479) 26, 664 (2, 157) 27, 370 (891)
1974 1975 1975 1976 1977 1978	9,530	6, 740 6, 200 5, 660 5, 230 4, 750	16, 270 16, 340 13, 720 12, 380 12, 330

Based on original schedule. Does not take into account possible debt rescheduling agreements. Fiscal years. Calendar year projections not available. 3 Not available.

MANUFACTURERS HANOVER TRUST COMPANY, New York, N.Y., April 9, 1973.

Ms. Margaret C. Brown.

United States Senate, Committee on Foreign Relations, Dirksen Senate Office Building, Washington, D.C.

DEAR Ms. Brown: On page 748 of the attached transcript, on which I have made a few minor corrections, Senator Church asked if I would send a copy of the letter, for the Committee's records, referred to on that page. I am pleased to enclose typical copies of the letter which went to most of our Chilean correspondents.

Sincerely yours.

JAMES R. GREENE.

Enclosures.

MANUFACTURERS HANOVER TRUST COMPANY, New York, N.Y., Septiembre 9, 1970.

Sr. GABRIEL MORGAN T., Gerente General, Banco Sud Americano, Casilla 90-T, Santiago, Chile

ESTIMADO SR. MORGAN: Ahora que la elección presidencial ha terminado en Chile, deseo approvechar la oportunidad para escribir a usted como representante de un banco al que consideramos uno de nuestros muy valiosos corresponsales, y

comunicarle nuestras impresiones.

Entendemos que ahora, y por unos cuantos meses se verán ustedes enfrentados a un período de incertidumbre. Sea ésta la ocasion de manifestarles una vez más que aqui en el Manufacturers Hanover Trust Company estamos deseosos de continuar cooperaudo son su estimada institución tal como lo hemos venido haciendo hasta ahora en materia de transacciones relacionadas con el financiamiento del comercio exterior.

Aprovechanos esta oportunidad para hacer mención al espíritu de mutua colaboración que ha caracterizado nuestras magnificas relaciones, y al mismo tiempo agradecer su cooperación al mentener en su estimada cuenta corriente con nosotros saldos promedios tan satisfactorios, los cuales esamos segaros continuarán

manteniendo en el mismo nivel en el futuro. Mi colega, el Sr. William J. Paden, Vice President, tiene planeado visitar Santiago durante los meses de Primavera en Ohile. El, naturalmente, espera tener la ocasión de cambiar impresiones con ustedes en dicha oportunidad.

Mientras tanto les reiteramos nuevamente nuestro deseo de continuar y estrechar más aúm, si posible, las valiosas relaciones que hemos tenido el placer de

sostener con ustedes.

Con un cordial saludo, quedo de usted.

Atentamente.

MANUFACTURERS HANOVER TRUST COMPANY, New York, N.Y., September 9, 1970.

Sr. Agustín Edwards Eastman, Presidente, Banco de A. Edwards & Cia., Casilla 131-D. Santiago, Chile.

ESTIMADO SR. EDWARDS: Ahora que la elección presidencial ha terminado en Chile, deseo aprovechar la oportunidad para escribir a usted como representante de en banco al que consideramos uno de nuestros muy valiosos corresponsales, y denunicarle nuestras impresiones.

Entendemos que ahora, y por unos cuantes meses se verán ustedes enfrentados a un período de incertidumbre. Sea esta la ocasión de manifestarles una vez más que aquí en el Manufacturers Hanover Trust Company estamos deseosos de continuar cooperando con su estinada institución tal como lo hemos venido haciendo hasta ahora en materia de transacciones relacionadas con el financiamiento del comercio exterior.

Aprovocharnos esta oportunidad para hacer mención al espíritu de mutua colaboración que ha caracterizado nuestras magnificas relaciones y al mismo tiempo agradecer su cooperación al mantener en su estimada cuenta corriente con nosotros saldos promedios tan satisfactorios, los cuales estamos seguros continuarán manteniendo en el mismo nivel en el futuro.

Mi colega, el Sr. William J. Paden, Vice President, tiene planeado visitar Santiago durante los meses de Primavera en Chile. El, naturalmente, espera tener la ocasión de cambiar impresiones con ustedes en dicha oportunidad.

Mientras tanto les reiteramos nuevamente nuestro deseo de continuar y estrechar más aún, si posible, las valiosas relaciones que hemos tenido el placer de sostener con ustedes.

Con un cordial saludo, quedo de usted, Atentamente,

> MANUFACTURERS HANOVER TRUST COMPANY, New York, N.Y., September 9, 1970.

Sr. Jórge Acevedo Castro,

Gerente, Banco de Talca, Casilla 13210, Correo 15, Santiago, Chile

ESTIMADO SB. ACEVEDO CASTRO: Ahora que la elección presidencial ha terminado en Chile, deseo aprovechar la oportunidad para escribir a usted como representante de un banco al que consideramos uno de nuestros muy valiosus corre-

sponsales, y comunicarle nuestras impresiones.

Entendemos que ahora, y por unos cuantos meses se verán ustedes enfrentados a un período de incertidumbre. Sea ésta la ocasion de manifestarles una más que aquí en el Manufacturers Hanover Trust Company estamos deseosos de continuar cosperando con su estimada institución tal como lo hemos venido haciendo hasta ahora en materia de transacciones relacionadas con el financiamiento del comercio exterior.

Approvechanos esta oportunidad para hacer mención al espíritu de mutua colaboración que ha caracterizado nuestras magnificas relaciones, y al mismo tiempo agradecer su cooperación al mantener en su estimada cuenta corriente con nosotros saldos promedios tan satisfactorios, los cuales estamos sequros continuarán manteniendo en el mismo nivel en el futuro.

Mí colega, el Sr. William J. Paden, Vice President, tiene planeado visitar Santigo durante los meses de Primavera en Chile. El, naturalmente, espera tener la

ocasión de cambiar impresiones con ustedes en dicha oportunidad.

Mientras tanto les reiteramos nuevamente nuestro deseo de continuar y estrechar más aún, si posible, las valiosas relaciones que hemos tenido el placer de sostener con ustedes.

Con un cordial saludo, quedo de usted

Atentamente,

MANUFACTURERS HANOVER TRUST COMPANY, New York, N.Y. Septiembre 10, 1970.

Sr. Nicolás Simunovic Sapunar,

Presidente, Banco Chileno-Yugoslavo, Casilla 605-A, Punta Arenas, Chile

ESTIMADO SR. SIMUNOVIC: Ahora que la elección presidencial ha terminado en Chile, deseo aprovechar la oportunidad para escribir a usted como representante de un banco al que consideramos uno de nuestros muy valiosos corresponsales, y comunicarie nuestras impresiones.

Entendemos que ahora, y por unos cuantos meses se verán ustedes enfrentados a un período de incertidumbre. Sea ésta la ocasión de manifestarles una vez más que aquí en el Manufacturers Hanover Trust Company estamos deseosos de continuar cooperando con su estimada institución tal como lo hemos venido haciendo hasta ahora en materia de transacciones relacionadas con el financiamiento del comercio exterior.

Aprovechanos esta oportunidad para hacer mención al espíritu de mutua colaboración que ha caracterizado nuestras magnificas relaciones, y al mismo tiempo agradecer su cooperación al mantenor en su estimada cuenta corriente con nosotros saldos promedios tan satisfactorios, los enales estamos seguros centinuarón manteniendo en el mismo nivel en el futuro.

Mi colega, el Sr. William J. Paden, Vice President, tiene planeado visitar Santiago durante los meses de Primavera en Chile. El, naturalmente, espera tener la ocasión de cambiar impresiones con ustedes en dichu oportunidad.

Mientras tanto les reiteramos nuevamente nuestro deseo de continuar y estrechar más aún, si posible, las vallosas recaciones que hemos tenido el placer de sostener con ustedes.

Con un cordial saludo, quedo de usted Atentamente, MANUFACTURERS HANOVER TRUST COMANY. New York, N.Y., Septiembre 14 de 1970.

Sr. DANIEL SOTTA. Presidente, Banco Osorno y La Unión, Casilla 57-D, Santiago, Chile.

ESTIMADO DANIEL: Hemos seguido con gran interés el desarrollo de los acontecimientos electorales en la democracia más austral de nuestro Hemisferio. Ahora que las elecciones han terminado, tengo entendido que se verán ustedes

enfrentados a cierto período de incertidumbre.

En este período deseamos recordarles que aquí en el Manufacturers Hanover Trust Company esperamos poder continuar brindando nuestra tradicional co-operación al banco de ustedes, el cual consideramos como uno de los más valiosos corresponsales y colegas que hemos tenido a través de varios años. Con este propósito deseo aseguraries que seguimos manteniondo nuestra línea de crédito a favor de ustedes para que puedan seguir utilizandola para transacciones re-lacionadas con el financiamiento del comercio exterior. Estoy seguro de que ustedes comprenderan que por el momento nos parezca proferible postergar financiaciones directas, tales como Préstamos para Aportes de Capital.

Aprovecho para manifestarles nuestro agradecimiento por la cooperación que

nos han brindado hasta ahora al mantener saldos tan satisfactorios en su cuenta corriente con nosotros, y nuestra confianza de que continuarán manteniendo esos

saldos en el mismo nivel en el futuro.

Mi colega, el señor William J. Paden, Vice President, planea visitar a Santiago dentro de dos meses, y para entonces, naturalmente, espera poder cambiar impresiones con ustedes.

Mientras tanto, permitame expresarle una vez más nuestro interés en seguir

manteniendo y estrechando más, si cabe, nuestras magnificas relaciones.

Reciba un cordial saludo de

JAMES R. GREENE, Senior Vice President.

MORGAN GUARANTY TRUST Co., New York, N.Y., February 8, 1973.

Mr. JACK A. BLUM. Senate Foreign Relations Committee, Washington, D.C.

DEAB MB. BLUM: With reference to our conversation, I include below the infor-

mation you requested:

1. Lines of credit in existence as of 8/31/70 with reference to Chile were \$13,300,000 for usual international trade transactions up to 180 days, aporte de capital loans up to 370 days and dollar exchange acceptances up to 90 days.

2. We advised all banks on November 16 or 17, 1970 that lines were no longer

3. Our major sources of political information are as follows:

Rundt's Weekly Intelligence (S.J. Rundt & Associates, N.Y.); News from Chile (Embassy of Chile, Washington, D.C.); Business Latin America (Business International Corp. N.Y.); Noticas (National Foreign Trade Council); New York Times; Journal of Commerce.

4. I have verified internally that prior to the Chilean elections in September and October we received no visits from either Messrs. Claro, Vial or Amunategui. Needless to say, we received no other visits either domestic or foreign, nor any request that we adopt any particular stand with regard to extending credit to Chile.

Sincerely yours,

MILBANK, TWEED, HADLEY & McCLOY. New York, N.Y., February 9, 1973.

Mr. JACK A. BLUM, Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate, Washington, D.C.

DEAR MR. BLUM: In response to the questions that you asked of Messrs. William S. Ogden, Executive Vice President, and Francis L. Mason, Senior Vice

President of The Chase Manhattan Bank, N.A., at the meeting in Mr. Ogden's office last Friday, I am submitting the following information furnished to me by officers of the Bank.

A review was made of lines of credit available and credit extensions not under lines of credit at the end of calendar quarterly periods beginning with

the second quarter of 1969. This review shows:

End of quarter	Lines of credit to banks-trade financing	Lines of credit to Corporations— trade financing	Other Ioans	. Term loans
February 1969	\$43, 710			
March 1969		***************************************		
April 1969	38, 666			\$22,000
lanuary 1970	38, 416			22, 000
February 1970	38, 166	\$10,000		20, 429
March 1970	30, 516	10, 000	\$645	20, 429
April 1970	22, 670	10,000	645	18, 657
anuary 1971	21, 920	10, 000	645	18, 857
ebruary 1971	11,000	7,000	645	17, 286
March 1971	11,000	3,000	645	17, 286
April 1971	5, 000		1 645	2 17, 286
anuary 1972		• • • • • • • • • • • • • • • • • • • •	645	17, 286
ebruary 1972				Q
March 1972				\mathbf{g}
April 1972			•••••	(4)

With the evolution of deteriorating credit factors, lines of credit for trade financing to government entities were terminated April 2, 1971, November 1, 1971 and December 1, 1971 and lines of credit to privately owned banks (prior to intervention) were terminated October 4, 1970, December 1, 1970, March 3, 1971, April 1, 1971, May 1, 1971, and January 1, 1972.

You inquired whether three individuals by the name of Ricardo Claro, Javier Vial and Gregorio Amunategui called on the Bank during the period August 1, 1970-November 1, 1970 and requested contributions to political campaigns in Chile. I have talked to those people whom the Bank believes might have information regarding such a visit and, so far as I have been able to ascertain, the visit to which you refer did not take place. I am informed by an officer of the Bank by the name of George Reeves who, at the time, was a Second Vice President and handled Chilean affairs, that about that time two individuals, introduced by a correspondent bank in Chile, called on him and stated that they were contacting a number of American companies which had business interests in Chile and indicated, indirectly, that they were interested in obtaining contributions for political campaigns. Mr. Reeves made no record of the visit and does not recollect the names of the two individuals but is fairly certain that they were not the same names as the ones you mentioned. Mr. Reeves stated that he did not say much of anything to the visitors, only making general remarks and obtaining the telephone number of the hotel where they might be reached. Mr. Reeves was not again in communication with the individuals and,

of course, as Mr. Ogden informed you, the Bank did not respond.

I am informed by the Bank that it did not participate in a loan to Tecna guaranteed by Banco Edwards. This confirms the information given you at the meeting with Mr. Ogden.

Very truly yours,

ROY C. HABERKERN, JR.

FEBRUARY 20, 1973.

Mr. Roy C. Haberkern, Jr. Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, N.Y.

DEAR MR. HABERKERN: Thank you for your February 9 letter responding to the questions I raised at the recent meeting with the officials of the Chase Manhattan Bank.

In your letter you say that lines of credit to privately owned banks were terminated on October 4, 1970, as well as on other dates. The Subcommittee is

Loan not paid when due.
 Installment due and not paid.
 Balance refinanced.

particularly interested in the terminations which were effected on the October 4th date; therefore, it is requested that you furnish copies of the letters of termination and the internal bank working papers relating to that termination. Should this request pose any problems for the Bank, please contact me.

Thank you again for the great efforts you made to cooperate and the assis-

tance which you have given us.

Sincerely,

JACK A. BLUM,
Associate Counsel, Subcommittee,
on Multinational Corporations.

MILBANK, TWEED, HADLEY & McCLOY, New York, N.Y., March 1, 1973.

JACK A. BLUM, Esq., Associate Counsel, Subcommittee on Multinational Corporations, U.S. Senate, Washington, D.C.

DEAR MR. BLUM: I am writing in response to your letter of February 20, 1973 which we discussed by telephone today. I am informed by The Chase Manhattan Bank, N.A. that four lines of credit to privately-owned banks in Chile were terminated between the 1st and 24th of October 1970. One line in the amount of \$300,000 was terminated for lack of usage. Three additional lines, in the respective amounts of \$775,000, \$500,000 and approximately \$1,200,000, were terminated because the customers had not maintained balances in accordance with the general balance understanding of 10% of line and 20% of usage, such customers' balances over recent periods having averaged slightly more than 4% to less than 1% of their respective lines of credit.

After further review of the Bank's records, I find that the specific dates referred to in the first full paragraph on page 2 of my letter of February 9 to you may not be fully accurate. I would like, therefore, to amend that paragraph to state that lines of credit for trade financing to government entities were terminated in April 1971, November 1971 and December 1971 and lines of credit to banks that were privately-owned prior to intervention were terminated in October 1970, December 1970, March 1971, April 1971, May 1971 and January 1972.

Yours very truly.

ROY C. HABERKERN, JR.

COVINGTON & BURLING. Washington, D.C., April 9, 1973.

JEROME I. LEVINSON, Esq.,
Counsel, Foreign Relations Subcommittee on Multinational Corporations, U.S.
Senate, Washington, D.C.

DEAR MR. LEVINSON: Enclosed is a schedule showing ITT income and provision for taxes on income for the years 1971 and 1972, domestic and foreign.

Very truly yours,

JOHN H. SCHAFER.

Enclosure.

ITT-UNITED STATES AND FOREIGN INCOME AND INCOME TAXES, 1971-72

[In millions of dollars]

	United States	Foreign	Total
1971:1 income before taxes	2 \$114. 8	\$351. 2 \$137. 0 39	\$670. 2 \$251. 8 38
1972: Income before taxes	1 \$290. 5 1 \$86. 7	\$490. 3 \$189. 2 39	\$780. 8 \$275. 9 35

Excludes income from Chile and extraordinary write-off of \$70,000,000 with no associated tax benefits.
 Includes State and local income taxes of \$9,399,000.
 Includes State and local income taxes of \$10,310,000.

APRIL 16, 1973.

Mr. HAROLD GENEEN, ITT Corp., New York, N.Y.

DEAR Mr. GENEEN: I am writing to you in connection with a question that was asked by Senator Symington in connection with the amount of Federal Income Tax paid by the International Telephone and Telegraph Company for the years 1971 and 1972. As you will recall, Senator Symington (transcript pages 997 and 998) asked you how much U.S. Federal Income Tax was paid by ITT and you agreed to provide this information.

Mr. John Schafer of Covington & Burling in response to this question has transmitted to Mr. Levinson a schedule showing ITT's income and provisions for taxes on income for the years 1971 and 1972. It is not possible to tell from the schedule transmitted by Mr. Schafer to Mr. Levinson precisely how much Federal Corporate Income Tax was paid by ITT.

Would you therefore be good enough to submit for the record the amount of Federal Corporate Income Tax paid by the ITT Corporation in 1971 and 1972?

Very truly yours.

FRANK CHURCH. Chairman, Subcommittee on Multinational Corporations.

> THE DEPARTMENT OF THE TREASURY, Washington, D.C.

Hon. Frank Church, U.S. Senate, Washington, D.C.

DEAR SENATOR CHURCH: The table requested in your letter of May 7, 1973, to Nathan N. Gordon of my staff on U.S. firms with excess foreign tax credits is enclosed. The table has been retyped to protect the confidentiality of three subcategories of manufacturing activity, each of which contained one firm only. Those subcategories have been aggregated with the manufacturing activity with which they are most clearly aligned; the totals are not affected.

As for providing the Subcommittee with aggregate data from the tax returns

of the 50 largest U.S. multinational corporations, we shall be glad to be of assistance. If you will let me know what information is of interest, we shall try to

supply it.

Sincerely yours,

FREDERIC W. HICKMAN.

FOREIGN TAX CREDIT ON CORPORATION RETURNS, 1968 RETURNS WITH FOREIGN TAX CREDIT CLAIMED IN EXCESS OF U.S. INCOME TAX BEFORE SURCHARGE, BY SELECTED MAJOR INDUSTRY

p**

[Money figures in thousands of dollars]

				บ.ร	. income tax be	fore credits		
,	Number of — returns	Net WHT.	. Corp.	Income	U.S. tax	Tax	Foreign	U.S. tax (including)
		Income	Deduction	subject to U.S. tax	before surcharge	including surcharge	tax credit claimed	surcharge) after FTC
All industries	196	2, 289, 741	105, 183	2, 145, 656	1, 018, 230	1, 119, 671	1, 110, 802	8, 870
Agricultura, forestry and fisheries	_3	23 _		23	3	7	7 _	
Mining	24	1, 168, 079	30, 269	1, 130, 343	542, 200	596, 415	593, 655	2, 76
Crude petroleum and natural gas	15	1, 034, 703	1, 022	1, 031, 863	495, 080	544, 584	542, 310	2, 27
All other mining	9	133, 376	29, 247	98, 480	47, 120	51, 831	51, 345	48
Contract construction	5	44, 181	1, 049	41, 760	19, 949	21, 884	21,096	78
Manufacturing	42	845, 787	69, 403	749, 717	352, 928	388, 020	383, 264	4,75
Food and kindred products.	3	153		153	53	56	56 .	
Chemicals and allied products	8	18, 065	724	17, 262	7, 714	8, 347	8, 347	
Petroleum refining and primary metal industry	A	771, 521	68, 178	689, 762	326, 166	358, 784	354, 280	4, 50
Machinery, including electrical equipment and supplies.	8	18, 324	68	18, 191	8,063	8, 839	8, 786	5
All other manufacturing including vehicles	18	37, 724	433	24, 349	10, 932	11, 994	11, 795	19
Transportation, communication, electricity and other services	18	7, 199	1, 539	5, 645	2, 595	2, 830	2,793	3
Wholesale and retail trade	24	106, 728	2,004	102, 549	47, 392	52, 101	52, 069	3
Finance, insurance and real estate	39	98, 436	60	97.704	44, 881	49, 328	49, 137	19
Services	41	19, 308	859	17, 915	8, 282	9, 086	8, 781	305

Source: office of the Secretary of the Treasury, Office of Tax Analysis.

WILMER, CUTLER & PICKERING. Washington, D.C., June 26, 1973.

JEROME I. LEVINSON, Esq.,

Subcommittee on Multinational Corporations, Old Senate Office Building, Washington, D.C.

DEAR MR. LEVINSON: I am writing on behalf of William E. Quigley, Vice Chair-

man of the Board of Directors of The Anaconda Company.

On March 27, 1973 Mr. Quigley appeared before the Subcommittee on Multinational Corporations in connection with the investigation of the International Telephone and Telegraph Corporation. During the course of his appearance, Mr. Quigley was asked by Senator Percy-

"Would you, in view of the fact that, and here if you want to furnish this for the record you certainly can if you do not have the information handy, but could you give us a list of all of the executives of Anaconda who have filed reports or political committees that have filed reports showing their contributions?" Transcript pp. 567-568.

Mr. Quigley agreed to provide the information requested.

Mr. Quigley and other officials of The Anaconda Company have made appropriate inquiries with respect to the question posed by Senator Percy. On the basis of such inquiries, Mr. Quigley wishes to advise you that unlike many other companies, neither The Anaconda Company nor any group of its executives formed a political committee with respect to elections in the United States in 1970, 1971 or 1972 and accordingly filed no reports. Since the reporting obligation is imposed on recipients of political contributions, Mr. Quigley has no knowledge as to what reports recipients of contributions from individual Anaconda executives may have filed.

Sincerely yours.

J. RODERICK HELLER III.

BACKGROUND BRIEFING AT THE WHITE HOUSE, WITH DR. HENRY A. KISSINGER, ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS, AND JOSEPH J. SISCO, ASSISTANT SECRETARY OF STATE FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS

SEPTEMBER 16, 1970.

Mr. KLEIN: Gentlemen, I would like to first thank you all very much for

joining us today in this briefing.

We appreciate the fact that many of you have traveled a considerable distance to come to this, and we hope that you will find it as worthwhile as we think it will be in terms of having an opportunity for a frank and open discussion on the entire field of foreign policy.

I ought to tell you first of all that I really am here because Dr. Kissinger wanted protection, and we don't yet have all our air marshals trained. (Laughter) Looking at some of you as old friends, and these meetings have all been great for me because I see so many old friends, I will tell you one bit of advice I got when I walked in the White House. When you see the companions I am surrounded with, you will understand why it was so good.

On the first day I came into the White House on the 21st of January, 1969,

I picked up the phone and I was looking out the window awed by being in this

place where so many great men have been and made decisions.

A voice on the other end of the phone said, "Herb, now that you are a national monument, I have one piece of advice for you. Watch out for the pigeons." (Laughter) That has been pretty good advice.

I might start off first by just explaining briefly the ground rules we would like to operate under today. We have found in working with these briefings that it has worked best if we do them entirely on a background basis. So that in terms of the discussions you will hear from Dr. Kissinger and Secretary Sisco, we would like to regard them entirely as on a background basis. In our terms, that means that if you refer to them we would want them referred to as Administration sources, and no one should be quoted directly or by name.

Therefore, the only SALT agreement that they will keep is one that they believe

is in their interests, and if we ever put ourselves in the position where our survival is dependent entirely on their good will or on their good faith, or even if our security is dependent on it, we are in bad shape.

That is one of the reasons why we made these exhaustive studies before we made our SALT proposals, despite the fact that many disarmament advocates were batting away at us saying "You have to show trust and good faith" and so forth. We believe that the only agreement that can last is one that puts a

minimum strain on good faith and trust.

Therefore, I believe that the SAI/T agreement, as it is now structured, is not to a very large extent dependent on their good faith. That is to say, our margin of survival vis a vis the Russians is much greater than the Israeli margin of survival vis a vis the Egyptians, if the Egyptians move, say, 100 missiles. That is of great significance to the Israelis and they can move that very quickly.

In order to upset the strategic balance vis a vis us, the Russians would have to construct, not just move, they would have to construct hundreds of missiles. Our studies show that they could not do that rapidly enough for us not to find out. Also, if they did that, we would of course take counter measures, and we

know what counter measures are to be taken.

If the Russians ever get the idea in a SALT agreement that they could get a free ride, that they could construct hundreds of missiles, and then we would do nothing, then we would be in terrible shape. Then they will do it. But as long as it takes them now about 18 months to construct an SS-9 silo, we generally pick it up after a maximum of six months, and usually a much shorter time than that. So if we saw a lot of silos being constructed in the Soviet Union, then we would know that they are breaking the agreement. Then we would take our counter measures and we know what counter measures we will have to take, and they are well within our means.

So I have no excessive confidence in their performance. I am worried and we are all worried by this rather flagrant abuse, particularly as it is so hard to ascribe a rational purpose to it, but we can proceed on our SALT course, if it stays within the present framework, with a high degree of confidence not in their word, but in our ability to take counter measures.

Question. Dr. Kissinger, one area that you did not talk about before was Latin America. You have Mr. Allende, a Marxist, elected in Peru. Could you talk just briefly about our long range view and the present dangers and opportunities and

activities?

Dr. KISSINGER. The election in Chile brought about a result in which the man backed by the Communists, and probably a Communist himself, had the largest number of votes by 30,000 over the next man, who was a conservative. He had about 36.1 per cent of the votes. So he had a plurality.

The two non-Communist parties between them had, of course, 64 per cent of the votes, so there is a non-Communist majority, but a Communist plurality. I say

that just to get the picture straight.

According to the Chilean election law, when nobody gets a majority, the two highest candidates go to the Congress. The Congress then votes in a secret ballot and elects the President. That election is October 24th. In Chilean history, there is nothing to prevent it, and it would not be at all illogical for the Congress to say, "Sixty-four per cent of the people did not want a Communist government. A Communist government tends to be irreversible. Therefore, we are going to vote for the No. 2 man. This is perfectly within their constitutional prerogatives. However, the constitutional habit has developed that Congress votes for the man that gets the highest number of votes. But then, of course, it has never happened before that the man with the highest number of votes happens to represent a non-democratic party, which tends to make his election pretty irreversible. I have yet to meet somebody who firmly believes that if Allende wins there is likely to be another free election in Chile.

So this is the situation that is now confronted by Chile. By a constitutional habit, the Congress votes for the man with the highest number of votes. The man with the highest number of votes is the candidate backed by the Com-

munists.

There is the additional problem that the Congress is not elected at the same time as the President, so in the Congress, as it now stands, the total number of seats is 200. The group that backs Allende, including the Communists, has 82 seats, so that all Allende has to do is pick up 19 seats from the other parties, and he will be in. The conservative candidate, that is, the No. 2 candidate, around whom the rallying would have to take place, has only about 45 seats. So he would have to pick up 57 or something like that to make it.

So both the internal structure of the Congress, plus constitutional habits, would argue that Allende is likely to win the Congressional election, barring something extraordinary. This problem is compounded by the fact that the non-Communist parties in Chile have been very divided among themselves, and you have the unusual phenomenon of people arguing, "Well, maybe Allende won't be so bad. Maybe he will run a democratic system." And it is the usual revolu-

tionary dilemma that, with a revolutionary seeking power, those who represent the non-revolutionary side do not all at the same time clearly understand what is happening. Therefore you have a great deal of confusion in Chile.

what is happening. Therefore you have a great deal of confusion in Chile. Now, it is fairly easy for one to predict that if Allende wins, there is a good chance that he will establish over a period of years some sort of Communist government. In that case you would have one not on an island off the coast which has not a traditional relationship and impact on Latin America, but in a major Latin American country you would have a Communist government, joining, for example, Argentina, which is already deeply divided, along a long frontier, joining Peru, which has already been heading in directions that have been difficult to deal with, and joining Bolivia, which has also gone in a more leftist, anti-U.S. direction, even without any of these developments.

So I don't think we should delude ourselves that an Allende take-over in Chile would not present massive problems for us, and for democratic forces and for pro-U.S. forces in Latin America, and indeed to the whole Western Hemisphere. What would happen to the Western Hemisphere Defense Board, or to the Organization of American States, and so forth, is extremely problematical. So we are taking a closs look at the situation. It is not one in which our capacity for influence is very great at this particular moment now that matters have

reached this particular point.

But you asked me about what the situation is. It is one of those situa-

tions which is not too happy for American interests.

MR. TODD: Bill Todd, Rockford Star. Dr. Kissinger, speaking of off shore islands, and closer to home, I saw a report recently that the Soviet Union seems to be sneaking into Cuba. Is there anything to that report, and if so, how serious does the administration view it?

DR. KISSINGER: The Soviet Union, of course, is very heavily established in Cuba as it is. It spends about \$1 million a day there, just to keep the island's economy going. What the reports are probably referring to, the reports that you mention, is the visit of the fleet units of the Soviet Union.

That in itself is not inconsistent with any understanding we have, certainly not against the latter. If they start operating strategic forces out of Cuba, say Polaris type submarines and use that as a depot, that would be a matter we would

study very carefully.

What the Soviet Union has to decide is this: Really, the principles that Joe Sisco advanced for a Middle East settlement apply to us too. As you look around the world, both sides, simply by the logic of events, have innumerable opportunities to take small gains and to harass the other, or they can ask themselves what is required for a more permanent settlement? In which case, they have to forgo some tactical advantages for the sake of an agreeable atmosphere.

For example, if we put the Polaris submarine into the Black Sea, we have every right to do it. There are many newspapers who would say that is a

provocative thing to do. Why operate so close to the Soviet border?

I am not saying everyone would hold that view. If one significantly changes the deployment of one's strategic forces, that is something the other side is bound to notice.

Therefore, both sides have to decide whether they want to restrain measures which they have a legal right to take, in the interest of some longer term settlements, or whether they want to press every advantage they have a legal right to take.

We are watching these events in Cuba and it isn't yet clear what, exactly, the Soviet Union is doing there. The fleet is rotating in and out, and we are

watching events very carefully.

Question. Secretary Sisco, and Dr. Kissinger, I am not asking what would we do, but in your roles as advisors to the President, how far do you think we should be prepared to go to protect the independence of Israel and our commitments in the Middle East?

Mr. SISCO: The first thing I would do is ask Henry Kissinger what he thinks.

(Laughter.)

First, let's be very clear about the use of this word "commitment." We do not, as you know, have any legal treaty signed with Israel and, therefore, in the

literal sense there is no legal commitment.

On the other hand, our role in the establishment of the State of Israel, a history of the relationships between the United States and Israel over two decades, I think it is very clear that there is strong support in our country in all strata of society for the existence of the State of Israel and for its right to live free of the threat of the use of force.

After all, I am not saying anything more than what is contained in the charter of the United-Nations. We have felt that in the long run peace and security for Israel can only be achieved by a genuine political peace agreement; that regardless of maintaining the balance by military means, where you have a situation where it is the military option that is being exercised by both sides to a limited or a greater extent, you have got there an inherent situation of instability.

MARCH 7, 1973.

The Honorable WILIAM P. ROGERS, Secretary of State, Washington, D.C.

DEAR Mr. SECRETARY: As you know, the Subcommittee on Multinational Corporations is engaged in the investigation of the activities of the Internatonal Telephone and Telegraph Company in connection with the election of Salvador Allende Gossens as President of Chile.

In connection with this investigation, it would be helpful to the Subcommittee if the Department would make available the cables from Santiago to the State Department and from the State Department to Santiago for the period August 1, 1970, through January 31, 1971. Either Mr. Jerome Levinson or Mr. Jack Blum of the staff of the Subcommittee would be available to examine the documents at your convenience.

Your cooperation will be greatly appreciated.

Sincerely.

FRANK CHURCH. Chairman, Subcommittee on Multinational Corporations.

> DEPARTMENT OF STATE. Washington, March 26, 1973.

Hon. FRANK CHUBCH,

Chairman, Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate.

DEAR MR. CHAIRMAN: Secretary Rogers has asked me to reply to your letter of March 7 asking if the Department would make available cables to and from the Department and Santiago for the period August 1, 1970, through January 31, 1971. This request is made in connection with the Subcommittee's investigation of the activities of the International Telephone and Telegraph Company with respect to the election of Salvador Allende Gossens as President of Chile.

The Department of State had previously reviewed its cable files, at OPIC's request, specifically to determine whether those files included any information as to ITT political activities in connection with the 1970 Chilean Presidential election. After diligent search, we have concluded that the Department's files do not include any report of ITT activities in connection with the 1970 Presidential election in Chile.

In view of this circumstance, we would hope that you would regard this letter as an adequate response to your request. Please let me know if it appears necessary to you to pursue the matter further. .

Sincerely.

MARSHALL WRIGHT, Acting Assistant Secretary for Congressional Relations.

APRIL 2, 1973.

Hon. MARSHALL WRIGHT,

Acting Assistant Secretary for Congressional Relations, Department of State, Washington, D.C.

DEAR MR. WRIGHT: Thank you for your March 26th letter informing the Subcommittee that the Department has searched its files at OPIC's request to determine whether there is reference to the activities of the International Telephone and Telegraph Corporation and asking whether the search is adequate for the Subcommittee's purposes.

As you may know the questions of what United States policy in Chile was during the period in question and what instructions the American Ambassador received have become central to the Subcommittee's understanding of the issues

before it.

Therefore, on behalf of the Subcommittee I must again renew the request that the Department make available cables to and from Santiago for the period August 1, 1970, to January 31, 1971.

Your prompt response will be appreciated.

Sincerely,

FBANK CHURCH, Chairman, Subcommittee on Multinational Corporations.

DEPARTMENT OF STATE, Washington, D.C., April 30, 1973.

Hon. Frank Church, Chairman, Subcommittee on Multinational Corporations, Committee on Foreign Relations, United States Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter of April 2, reiterating the request that the Department make available cables to and from Santiago for the period August 1, 1970, to January 31, 1971, notes that the questions of United States policy in Chile and the instructions received by our Ambassador there have become central to the Subcommittee's understanding of the issues before it. We appreciate the Subcommittee's wish to establish the record concerning United States policy with respect to the Chilean Presidential election of 1970. Former Assistant Secretary Meyer, former Ambassador Korry and other officials of the United States Government have given pertinent testimony in that regard. We believe that the record is clear, but to be helpful to the Subcommittee, and in response to your latest request, I have been authorized to provide a further statement confirming that testimony.

Basic United States policy towards Chile has been and remains that Chilean internal affairs are a matter for Chilean determination. Our Ambassador in Chile and all other U.S. Government employees followed this guidance. The United States Government at no time sought to thwart Chilean constitutional processes. Before and after the popular election in Chile on September 4, 1970, the situation in Chile and U.S. policy towards that country were under active review. As is customary in any policy review, a wide range of options was considered. As testimony before the Subcommittee indicated, U.S. intelligence officials responsible for developing information pertinent to policy consideration discussed the feasibility of certain options with a corporation officer. However, United States policy as described above did not change. Nothing came of these discussions.

The Department hopes this statement will satisfy the Committee's concerns

The Department hopes this statement will satisfy the Committee's concerns with respect to United States policy as to the Chilean Presidential election of 1970. There is a strong national interest, which everyone can appreciate to maintain freedom for uninhibited policy debate within the Executive Branch and to protect the privacy of communications between an embassy and its contacts in the host country. The cables requested form a continuous and integral dialogue between Washington and the Embassy, including their evolving perceptions and those of the Embassy's foreign contacts. To disclose these communications at this time would be highly prejudicial and in our view does not appear necessary to meet the Subcommittee's objectives in this bearings.

meet the Subcommittee's objectives in this hearings.

The Department hopes, Mr. Chairman, that the Subcommittee will weigh these considerations and accept this letter as our response to your inquiry of April 2. Sincerely yours.

MARSHALL WRIGHT,
Acting Assistant Secretary
for Congressional Relations.

MAY 8, 1978.

Mr. Marshall Wright,

Acting Assistant Secretary for Congressional Relations, Department of State, Washington, D.C.

DEAR MR. WRIGHT: Thank you for your April 30 response to the Subcommittee's renewed request to the State Department for the cables to and from Santiago for the period August 1, 1970 to January 31, 1971.

The statement which you make in confirmation of Assistant Secretary Meyer's testimony does not adequately satisfy the Subcommittee's need for information. The Subcommittee is aware of the sensitivity of the documents which have been requested and is fully prepared to respect the Department's security classification system.

The suggestion that foreign policy decision making gains from uninhibited debate should not be limited to the Executive Branch. Under the Constitution an

essential part of the dialogue should be between Congress and the Executive. Therefore, I am again renewing the request for the cables in behalf of the Subcommittee.

Your prompt response will be appreciated.

Sincerely.

FRANK CHUBCH. Chairman, Subcommittee on Multinational Corporations.

PARTIAL DIGEST OF DOCUMENTS COLLECTED BY THE SECURITIES AND EXCHANGE COMMISSION CONCERNING THE ITT-HARTFORD INSURANCE COMPANY MERGER

(1) Memo dated January 2, 1969 to Harold Geneen from C. T. Ireland. Ireland's testimony was taken here at the Commission. The memo is labeled personal and confidential and relates to the acquisition of Hartford Fire by ITT. The memo outlines what Ireland's thoughts were on the merger of Hartford and ITT. He says, among other things, that "inexorable pressure has to be maintained right up to the end if the acquisition is going to be successful." On page 2 of the memo, Ireland indicates that as part of the pressure, Ned Gerrity's troops have to be extremely alert for any move in the political arena of Hartford and Washington. The memo contains other matters also relating to other viewpoints on how the merger can be made to succeed.

(2) Memo dated June 25, 1971 from Dita Beard to Merriam regarding the San Diego convention. This is the Anderson-Dita Beard memo.

(3) Memo dated June 25, 1971 to Merriam from Dita Beard. This is allegedly

the true Dita Beard memo.

(4) Memo dated August 10, 1970 marked personal and confidential also designated as "urgent" to Ryan from Gerrity. Memo relating to meeting that apparently occurred previous Friday with Chuck Colson at the White House. The memo indicates that Schmitt, Beard, Horner and Goodrich should acquaint key people with what happened the previous Tuesday and Thursday and Friday. The purpose was stated to have these people ready to act as needed. This was discussed with Merriam, Tom Casey and Ed Wallace. It is suggested that Beard brief "Rog and Bob, et al." (were apparently Congressmen). Indicates there were two other names in memo including Ray and Bert, who are supposed to know what to do with Jack and Bernie. Ray and Bert are also supposed to keep their ears open as to what is happening to MacClaren. The whole thing. Bill McPeak is also mentioned as one to be made aware of the situation. Mention is also made of a meeting between Hal and John, the John being Mitchell.

(5) Letter dated August 7, 1970 (date may be off) to Spiro Agnew from Ned Gerrity. The memo consists of a thank you letter concerning an attached memo and a suggestion that Mitchell get the facts relating to ITT's position to Mac-Claren. Note is made that Gerrity expressed interest that MacClaren seems to be more responsive to Senator Hart and Congressman Cellers rather than to the Administration. The attached memo outlines a meeting that had occurred on the previous Tuesday with MacClaren (Agnew). It also indicates there was a friendly session between Geneen and Mitchell prior to the meeting with Mac-Claren (Agnew). It indicates that Mitchell told Geneen that Nixon was not opposed to the merger. He believed that mergers were good. Mitchell apparently said that ITT had not been sued because bigness is bad. Mitchell emphasized that "bigness is bad" is not the case in relation to ITT. It also indicates that Geneen and Merriam met with Colson and Erlichman that same day. The memo indicates that Erlichman said frequently that Nixon was not enforcing a bigness

(6) Memo dated August 24, 1970. Ryan to Merriam, relates to a meeting on a gust 19, 1970 with Maurice Stans. There is an indication that Kliendienist must "follow through" and that this "may be the break" that ITT is looking for. There is a rhetorial question asked, "How will MacClaren react, or how

good a Republican is MacClaren?

(7) An April 22, 1971 letter to Pete Peterson from Geneen regarding mounting problems of balance of payments, trade deficits and anti-trust policy. (Rub-

ber stamp memo attached)

(8) April 27, 1971 letter to John Connally from Bill Merriam advising Connally of meeting between Pete Peterson and Geneen on April 16: There is an indication of the fact that Peterson was able to see them and indicated that Merriam and Geneen were certain that Peterson and Connally were "instrumental in the delay." (The delay referred to, I believe relates to the filing of jurisdictional statements by the Justice Department before the Supreme Court).

(9) April 30, 1971 letter to Pete Peterson attaching a copy of an extension of time application filed by Griswald before the Supreme Court asking for a delay In fling jurisdictional statements in the ITT case. Indication is that the delay was in part due to the action of the Administration (Paul and the 2 Johns will be able to persuade MacClaren to come to a satisfactory settlement).

(10) April 26, 1971 letter to Pete Peterson from Merriam about pending legislation to be introduced by Congressman Cellers expressing ITT's concern with

the legislation.

(11) April 22, 1971 letter to Andre Meyer from Geneen indicating that Geneen had recommended Meyer to Peterson to be of assistance in some economic conference.

(12) July 16, 1970 letter, Shipley to Geneen enclosing a letter from MacClaren to Stucky in which MacClaren is responding to an apparent previous

communication to MacClaren from Stucky. Stucky says that a continuation of this kind of pressure on MacClaren will be helpful to ITT's efforts.

(13) Letter dated August 7, 1970 to Colson from Tom Casey expressing appreciation of the concern expressed by Erlichman and Colson at a meeting that had apparently occurred between these people and Geneen. Reference is made to a meeting between Attorney General Mitchell and discussion is included regarding accounting principals board. There is also a discussion of the "Mac-Claren situation", apparently relating to statements made by MacClaren to ITT, in recent meeting regarding MacClaren's views on anti-trust policy.

NOTE.—The second reference to the name "Stucky" in line 3 of numbered paragraph (12) on this page is incorrect and should read "Shipley".

INTERNATIONAL TELEPHONE AND TELEPHONE CORPORATION. New York, N.Y., April 22, 1971.

The Honorable Peter G. Peterson,

Assistant to the President for International Economic Affairs, Old Executive Building, Washington, D.C.

DEAR PETE: Your time and discussion last week were very much appreciated. Your program would appear to be the first broad constructive approach to the mounting problems of our balance of payments, trade, and overall international position, many factors of which will have direct effect on our economy at home.

I understand that this assignment is new, but let me say it has been urgently

needed for a long time.

You have asked if I could suggest some names to work as Committeemen on a fairly intensive basis through a three-month period in the four areas of:

Industrial Technology;
 Raw Materials and Clean Energy Source;

(3) Business-Government Relations, and

(4) Productivity.

I have attached a list of names for this purpose with some very brief notations. In addition, if I may, I would like to offer to serve on any of your Committees. I will do my best on time realizing other commitments. The Business-Government Relations and Productivity is where in my opinion the real battle has to be won if we are to be successful in reversing current trends.

On the subject of our conversation last week, I am attaching a brief note which you may find useful as a summation of one aspect of the problem we

discussed.

Thank you again for your interest and courtesy.

Sincerely,

H. S. GENEEN.

SUGGESTED NAMES

- (1) Eugene Black, Financial-former head World Bank; wide background international and domestic Government service.
- (2) John McCone, Business and shipping—former head atomic energy Government service.
 - (3) Andre Meyer, Financial-wide background international and domestic.
- (4) Rudolph Peterson, Former head Bank of America: wide background on Government commissions.
 - (1) C. W. Cook, Head, General Foods.

(2) Richard Gerstenberg, Financial head, General Motors.

(3) John Harper, Head, Aluminum Co. of America.

I know all of these as competent and hard working. The first four are more senior in age and background. The latter three are active in their careers but good.

APRIL 22, 1971.

Mr. Andre Meyer, Lazard Freres & Co., 44 Wall Street, New York, N.Y.

DEAR ANDRE: The attached will be of interest to you.

I used your name in vain as a possible help to Peterson largely because I know that Secretary Connally has already suggested it. But in any event, I ask your permission rather belatedly.

Beyond that, I think you will find the attached memorandum of interest.

Sincerely,

H. S. G.

MEMORANDUM ON ANTITRUST POLICY AND ITS RELATION TO THE ECONOMIC POLICY OF THE UNITED STATES

The most significant comment on the Antitrust policy as related to the economic policy of the United States, which is the responsibility of the executive branch of the government, is that there has been little past correlation between the two policies although high interdependence is necessary for successful economic progress.

A specific example in this respect is to be found in the Economic Report of the President, dated February, 1970. What follows are excerpts from the broader text.

Page 95 . . . Mergers, even between competitors, are not per se violations of the law, however, and they may even favor healthy competition. The ready marketability of a firm may encourage others to become entrepreneurs and establish new enterprises. Mergers may also be an efficient way of replacing incompetent managements. They may lead to greater economies of scale in production and marketing. And they may make it easier to transfer resources to the industries or enterprises that can most effectively employ them. In addition, access to capital markets may be facilitated. Nonetheless, the law prohibits mergers whose effect ". . . may be substantially to lessen competition, or to tend to create a monopoly." An accomplished effect deleterious to competition need not be proved; it is sufficient if there is a reasonable likelihood that such an effect will follow. . . .

Page 96.... The Department of Justice has announced that it intends generally to adhere to its 1968 guidelines, but that it probably will oppose any merger among the top 200 manufacturing firms or firms of comparable size in other industries, or any merger by one of the top 200 manufacturing firms with any leading producer in any concentrated industry. This program is based upon recent decisions of the Supreme Court condemning mergers that eliminate significant potential competition, entrench leading firms in concentrated markets, substantially increase the power of large firms to engage in reciprocity, or further a trend of mergers that would lessen competition. The staff of the Federal Trade Commission has recently issued a report on conglomerate mergers. The Commission is planning to continue its study and to coordinate it with a projected Administration study of economic concentration, including conglomerate mergers (underline added)

The key sentence in the above is the statement in reference to the Antitrust Division, is that "this program is based upon recent decisions of the Supreme

Court. . . .'

However, the Supreme Court is not "making" these decisions. They are in most cases merely affirming the "invitation" to these decisions as sent up by the Antitrust Division of the Department of Justice. In fact since the advent of the Warren Court, 62 out of 65 cases in this area have been affirmed for the Government. The Supreme Court, therefore, is endorsing and confirming what it conceives to be the economic policy desired by the Government almost precisely as presented by the Antitrust Division. In short, the Antitrust Division is writing, in this method, its own economic policy for the nation. Similar comment can be made in certain respects as to the Federal Trade Commission.

Recent and past events indicate that there is often little relationship between the economic policy desired by the Executive Branch of the Government and the Antitrust Division's cases, including landmark precedent cases stretching the intent of the law. The latter in many cases are derived from increasingly unreasonable theories and narrow concepts which are unrelated to real "competition" or to today's realistic problems of Government and present day international and domestic national economic needs.

To emphasize this unreal condition, it should be noted that the most recent

amendment by Congress of the Clayton Act was in 1950.

The cases sent by the Antitrust Division to the Supreme Court are therefore in many instances "invitations" to spell out increasingly restrictive economic policy based on the exceedingly vague process of "interpreting" the "intention"

of Congress when passing this amendment "in 1950."
Since the problems and the conditions faced by the United States today, 20 years later, in its international affairs are almost 180 degrees different than they were in 1950 this at best is a very outmoded model to work from and at worst results in direct conflict with the national interest.

For example, in 1950—compared to today's conditions-

(1) There was no European Common Market.

(2) Both Europe, including Germany, and most particularly Japan were "flat on their backs" as far as trade competition with the United States was concerned

as they were still recovering from their own internal problems.

(3) The dollar was in short supply in contrast to present conditions today. Our gold stock was then at \$23 billion and has since dropped to \$11 billion. Our total international reserve assets have similarly dropped from \$24 billion to \$14 billion. In sharp contrast our liquid *liabilities* to foreigners directly or indirectly have risen from \$16 billion in 1957 to almost \$45 billion in 1970. This is dramatic change from 1950.

(4) In 1950 the United States was pre-eminent in its position in international markets because of its large excess of exports over imports. In fact at that time the United States was almost the sole supplier of money, goods and services to a world that was not quite recovered from World War II. For example, in the four years 1946-49 we had a cumulative excess of exports over imports of \$32 billion. By contrast, today in spite of our much larger economy our cumulative excess of exports for the last four years 1967-70 was only \$14 billion, and is still

declining.

(5) Largely due to inflationary increases in wage costs, the United States has lost, in this intervening period since 1950, the competitive and cost advantage it enjoyed in the early post-World-War II years and in prior periods. Perhaps a more direct way of pointing this out is to indicate that names like Volkswagen, Datsun, and Fiat, which today comprise 15% of our domestic auto market were unheard of at that time. Japanese and Far Eastern imports of such companies as Sony, Hatachi, etc., and other Far Eastern sources already represent about 28% of the United States domestic consumer electronics market today. And, finally, the small quantities of foreign steel which turned up in our economy in those days were insignificant and amounted to .2 of 1% of our total steel consumption, whereas today U.S. steel imports would amount to 15%. One could add that Harley Davidson and Indian motorcycles, both good American makes, were occasionally seen on the highways, not the thousands of Honda, Suzuki, Triumph, etc. which today comprise 93% of our domestic market. Many of the same comments could be made for shoes, textiles, cameras, binoculars, and many other areas which have seen major changes.

More importantly, the trend has not stopped.

(6) Further, the enlargement of the Common Market to include Great Britain, Ireland, Denmark, and possibly Spain and other countries will present even greater competitive problems to the United States businesses in international markets and even greater impacts from imports and/or other necessary steps taken to protect our domestic markets which can eventually only have the result of higher costs at home and further deterioration of our international situation.

In conclusion, since the amendment to the Clayton Act by Congress in 1950the United States has moved from a position of unchallenged pre-eminence in foreign trade—sharply to a defensive one—and the trend is still adverse. This trend is not due to "anti-competitive" practices. In addition to being out of date, the Clayton Act is already so vague as to require strict construction rather than continually expansive and theoretical interpretations which are remote from reality and which will further weaken our competitive effort.

Yet, as stated, our government is still forming its broad economic policy in these important areas of our competitive industry capabilities by allowing the Antitrust Division to send to the Supreme Court cases inviting far-reaching new theories of purported "interpretations" of the "intent" of Congress "in 1950." This "innovative urge" to expand the meaning of the law through such theoretic devices as, for example, "potentiality" is in sharp contrast with the actual assignment of the pursuit of real anti-competitive practices. This can be economic disaster, since the lawyers presenting to and those comprising the Supreme Court do not have expertise or responsibility to determine long-term national economic policy.

It would seem clear, therefore, that any meaningful development of economic policy will require review for at least a commonality of purpose of these cases by other areas of the Executive Branch of the Government and of the economic theories and philosophy and legal arguments contained in these requested decisions before they are sent to the courts. Only in this manner can agreement and support be reached for the other areas of the Executive Branch who do have the broad responsibilities for the national economic future—and who must, therefore, participate actively in such decisions to be taken in the national interest and in the selection of such cases as will give constructive economic policy, or at least to prevent seeking destructive policy, before such "interpretations" are sought and then become binding law, equivalent in impact to major new Congressional legislation.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORP. Washington, D.C., April 22, 1971.

Hon. JOHN B. CONNALLY,

The Secretary of the Treasury, Washington, D.C.

DEAR MR. SECRETARY: Pete Peterson and I thought you would be interested in the results of the calls Harold S. Geneen and I made on Friday, April 16, when we discussed antitrust matters and their impact on the economy of the country.

I am sure you heard that the Justice Department agreed to postpone for thirty days their filing of jurisdictional papers an the ITT-Grinnell case. This, of course, was great plus and will give us time to work out a settlement. Actually, the thirty-day Administration sponsored delay came as a surprise because we understood that on Monday morning Dick Kleindienst had been negative about a delay.

You might also be interested in knowing that Felix Rohatyn had a very productive conversation on Tuesday of this week with Mr. Kleindienst. The purpose of this visit was to explain to the Deputy Attorney General all of the domestic and international economic ramifications if ITT had to divest Hartford. A meeting between Mr. Rohatyn and Mr. McLaren is now scheduled for May 5 at 3 p.m. Mr. Kleindienst plans to sit in and monitor this meeting.

I will, of course, keep you posted. In the meantime, if there is anything further you think Hal or I should do with other members of the Administration, please

do not hesitate to let us know.

Hal and I are most appreciative of the fact that you were able to see us the other day on such short notice. We are certain that you and Pete were most instrumental for the delay.

Kindest personal regards.

WILLIAM R. MERRIAM.

APRIL 26, 1971.

Hon. Peter G. Peterson,

Assistant to the President for International Economic Affairs, Old Executive Building, Washington, D.O.

DEAR PETE: In a long conversation with Hal this morning from Florida, he asked me to check in with you to be sure you had heard about the fact that Mr. Celler, the Chairman of the House Judiciary Committee, was planning to introduce legislation that would prohibit the nation's 500 largest industrial corporations from merging with each other or with any small companies with assets of \$100,000 or more.

I am sure you realize that he is concerned about this; and while I tried to assure him that such a bill had very little chance of being passed, he is afraid that the press might ab it and blow it out of proportion thus affecting the delicate negotiations we are beginning with Mr. McLaren on Thursday, the 29th. You might have heard of the Attorney General's speech in Savannah almost two years ago in which he cited as antitrust policy for the Nixon Administration almost the same thing that Emanuel Celler has proposed. Mitchell said that none of the top 200 companies should be allowed to merge. We have alerted Clark MacGregor to this matter, and we plan to generate some speeches ridiculing the Chairman's proposed legislation.

We would appreciate any suggestions you might have on what we should do about the matter. Perhaps this is the time to resurrect the Stigler Report which was prepared by the Administration in the beginning of Mr. Nixon's

Please excuse me for bothering you everyday, but I am sure things will get better sometimes soon.

With warm regards.

WILIAM R. MERRIAM.

APRIL 30, 1971.

Hon. PETER G. PETERSON.

Assistant to the President for International Economic Affairs, Old Executive

Building, Washington, D.C.

DEAR PETE: Hal Geneen thought you would be interested in seeing a copy of the application for further extension of time, which was submitted by Mr. Griswold as a result, I am sure, of action on the part of certain Administration principals. Hal is particularly impressed with the last paragraph of the application with states:

"The additional time is needed for further study of the case and to permit consultation among various interested government agencies with regard to

whether the government should perfect its appeal."

We all are hopeful, of course, that during the next twenty days Paul and the two Johns can convince the Department that the merger policy as now practiced will be suicidal for the economy of the country. I am sure you agree with us that Hal's memorandum which we left with you several weeks ago could serve as a guideline for future merger policy.

The work you and your associates have done has been highly effectiveso much so that the Antitrust Division seems to show some evidence of concern.

This is a step in the right direction.

With warm regards,

WILLIAM R. MERRIAM.

AUGUST 7, 1970.

The Honorable Spiro T. Agnew:

TED: I deeply appreciate your assistance concerning the attached memo. Our problem is to get to John the facts concerning McLaren's attitude because, as my memo indicates. McLaren seems to be running all by himself.

I think it is rather strange that he is more responsive to Phil Hart and

Manny Celler than to the policy of the Administration.

After you read this. I would appreciate your reaction on how we should proceed.

NED.

MEMORANDUM

AUGUST 7, 1970.

You will recall at our meeting on Tuesday I told you of our efforts to try and settle the three antitrust suits that Mr. McLaren has brought. Before we met, Hal had a very friendly session with John, whom, as you know, he admires greatly and in whom he has the greatest confidence. John made plain to him that the President was not opposed to mergers per se, that he believed some mergers were good and that in no case had we been sued because "bigness is Hal discussed this in detail because McLaren has said and in his complaints indicated strongly that bigness is bad. John made plain that was not the case. Hal said on that basis he was certain we could work out something. John said he would talk with McLaren and get back to Hal.

While you and I were at lunch, Hal and Bill Merriam, who runs our local office, met with Chuck Colson and John Ehrlichman, and Hal told them of his meeting with John. Ehrlichman said flatly that the President was not enforcing a bigness-is-bad policy and that the President had instructed the Justice Department along these lines. He supported strongly what John had told Hal. Again, Hal was encouraged. I learned the details of this meeting after our lunch. Yesterday our outside counsel from Chicago, Ham Chaffetz, who represents us in the Canteen case vs. the Justice Department, had a pretrial meeting with McLaren and his trial people. They reviewed the case, and Chaffetz said he was ready to settle since Justice really had no case, i.e., they could not show reciprocity, etc., and that all that was alleged was that ITT was getting too big. McLaren, ignoring the evidence, said that ITT must be stopped, that the merger movement must be stopped, etc., in effect saying he was running a campaign based on his own beliefs and he intended to prosecute diligently. It is quite plain that Mr. McLaren's approach to the entire merger movement in the United States is keyed into the present cases involving ITT. Therefore, it is equally plain that he feels that if a judgment is obtained against ITT in any of these cases then the merger movement in the United States will be stopped. His approach obviously becomes an emotional one regardless of fact.

It was plain that McLaren's views were not and are not consistent with those of the Attorney General and the White House. We are being pursued, contrary to what John told Hal, not on law but on theory bordering on the fanatic.

In his conversation with Hal, John agreed that the steam had gone out of the merger movement because of tax reform legislation, the new accounting principles and general developments in the economy. John agreed with Hal that there was no need for a "crusade" to halt the merger movement because of the reasons I have indicated above. It is plain, therefore, that McLaren is operating on a completely different basis from John and the White House. I believe it has reached the point where he is more concerned about his personal views than those of his superior or the President.

My question to you is, should we get this development back to John, so he is aware, and how do we do it? What is the best way? I would appreciate your help and advice.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION,

Washington, D.C., August 7, 1970.

Mr. CHARLES COLSON, Special Counsel to the President, 1600 Pennsylvania Avenue NW., Washington, D.C.

DEAR CHUCK: Mr. Geneen has asked me to write to you and express his appreciation for the extremely cooperative response and interest you and Mr. Ehrlichman expressed in regard to ITT's areas of concern during his recent meeting.

He also asked me to forward to you excerpts from the "Stipulated Statement of Facts" recently filed by the Department of Justice in the LTV-Jones & Laughlin case. After you have reviewed these excerpts, I am sure you will realize his concern.

During his meeting with Attorney General Mitchell, Mr. Geneen and the Attorney General both agreed that because of the recent changes in the tax law, the decision of the Accounting Principles Board and the depressed state of the stock market and economy, the merger wave was over and we would not see such happenings again. The Attorney General stated that it was not the intent of the Department of Justice to challenge economic concentration or bigness per se, or big mergers as such. During Mr. Geneen's conversation with Mr. Ehrlichman and you, he was told that the President himself has stated that bigness as a merger consideration is not the policy of his Administration.

In light of this, let me advise you of a meeting yesterday between Canteen's counsel from Chicago, Mr. Ham Chaffetz, who represents Canteen in its case, and Mr. McLaren and his trial people. This meeting was held at the request of Judge Austin who will hear the case. Judge Austin suggested that a possible settlement might be reached. They reviewed the case and Mr. Chaffetz said he was ready to settle since Justice really had no case; i.e., they could not show reciprocity, etc., and that all that was alleged was that ITT was getting too big.

was ready to settle since Justice really had no case; i.e., they could not show reciprocity, etc., and that all that was alleged was that ITT was getting too big. Mr. McLaren said he thinks he has a reciprocity case, but that is "only half the case and even if we did not have that, we would still be proceeding against ITT anyway" because of ITT's series of acquisitions. Further statements by Mr. McLaren were to the effect that

ITT is continuing to make aquisitions "and has to be stopped." ITT is one of the leaders in making acquisitions.

Mr. Geneen has gotten away with a lot of acquisitions that the Department did not challenge.

ITT has made all these acquisitions and is now in the top ten companies. ITT just keeps going on and everyone else goes along with ITT doing

the same thing.

If ITT does it, other people will do it too and "ITT has got to be stopped." Mr. McLaren referred to the "legislative history" of Section 7 as indicating the Congressional intention to stop increasing concentration and the trend of mergers. He indicated clearly that this was the "other half" of his cases against ITT. Mr. Chaffetz pointed out that Section 7 provides that in each individual case the Government must show an adverse effect on competition. However, Mr. McLaren would not focus on this point at all and merely made statements to

the effect that "mere power is enough."

It seems plain that Mr. McLaren's views were not and are not consistent with those of the Attorney General and the White House as expressed to us. Apparently, we are going to be prosecuted, contrary to what the Attorney General, Mr. Ehrlichman and you told Mr. Geneen, not on law but on theory. This is an interesting attitude in view of Judge Timbers' decision refusing to allow the preliminary injunction in the Hartford and Grinnell cases. Pointing out that Section 7 of the Clayton Act "proscribes only those mergers the effect of which 'may be substantially to lessen competition, not those mergers the effect of which may be substantially to increase economic concentration." the Judge then concluded (Opinion, p. 71–72):

"The alleged adverse effects of economic concentration brought about by

merger activity, especially merger activity of large diversified corporations such as ITT, arguably may be such that, as a matter of social and economic policy, the standard by which the legality of a merger should be measured under the antitrust laws is the degree to which it may increase economic concentration-not merely the degree to which it may lessen competition. If the standard is to be changed, however, in the opinion of this Court it is fundamental under our system of government that that determination be

made by the Congress and not by the courts."

Should you care to go into this matter in any detail, I'd be willing to discuss it—only at lunch. Personal regards,

THOMAS H. CASEY, Director, Corporate Planning,

Enclosure.

UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF PENNSYLVANIA

(Civil Action No. 69-438)

United States of America, plaintiff, v. Ling-Temco-Vought, Inc., Jones & Laughlin Steel Corporation, and Jones & Laughlin Industries, Inc., DEFENDANTS

STIPULATED STATEMENT OF FACTS

The parties to this action, by their attorneys, stipulate for purposes of this action only, and for no other purpose, as follows:

I. Jurisdiction

1. On April 14, 1969, plaintiff United States of America instituted this action under Section 15 of the Act of Congress of October 15, 1914, as amended (15 U.S.C. § 25), commonly known as the Clayton Act, in order to prevent and restrain an alleged violation of Section 7 of that Act, as amended (15 U.S.C. § 18). Section 15 of the Act vests jurisdiction in "the several district courts of the United States . to prevent and restrain violations of this Act." Among other things, Section 7 of the Act prohibits any corporation engaged in commerce from acquiring, directly or which preceded agreement between the parties on the terms of the proposed Final Judgment. The consummation of the proposal does not contravene the divestiture requirements of the proposed Final Judgment and was expressly excepted, in Subparagraph (f) on page 9 of the proposed Final Judgment from the restrictions otherwise imposed upon defendants by Subsection IV(E) of the proposed Final Judgment.

16. This action is one of several cases brought by the Department of Justice predicated in part on its claim that Section 7 of the Clayton Act prohibits acquisitions by large conglomerate corporations in the course of, and which tend to proliferate, a merger movement where concentration of control of manufacturing assets will be substantially increased and the trend to further concentration will be encouraged. Although a United States District Court in Illinois and another in the Northern District of Connecticut rejected this contention in the course of denying the Government's motions for preliminary infunctions, it appears that this issue will be fully litigated and finally adjudicated in these cases now being prepared for trial. In Allis Chalmers Mfg. Co. v. White Consolidated Indus., Inc., 414 F. 2d 506 523 (3d Cir. 1969), cert denied, 396 U.S. 1009 (1969), this contention was supported by the Justice who wrote the "OPINION OF THE COURT." (Another Justice concurreed solely on the reciprocity aspect of the opinion, id, at 526-7, and the third Justice dissented, id. at 527 es seq.)

17. The proposed Final Judgment requirs LTV to divest all of its interest in Braniss and Okonite, or, in the alternative, all of its interest in J&I. Acordingly, the proposed Final Judgment contemplates a minimum divestiture of more than \$500 million of assets. As stated in plaintiff's press release announcing the proposed Final Judgment—subject to the Court's approval—the Attorney General stated that it "calls for the most substantial corporate divestiture of any antitrust decree in recent years." (A copy of that press release is attached hereto as Exhibit 1.) Section IV(E) of the proposed Final Judgment—contains numerous prohibitions and safeguards to insure that the comment contains numerous prohibitions and safeguards to insure that the companies to be divested will be maintained as viable going business entities pend-

ing the completion of the required divestiture.

18. Subsequent to the filing of the Complaint herein, LTV disposed of its entire interest in its subsidiaries Wilson Sporting Goods Co., and National Car Rental System, Inc., the book value of whose combined assets exceeded

\$156 million as of December 31, 1968.

19. The proposed Final Judgment, if entered, will among other things, reduce the concentration of control of manufacturing assets and should assist in arresting the encouragement of a trend to further concentration as alleged in the complaint. It, therefore, conforms to the claims of the Department of Justice that the Congressional intent in amending Section 7 of the Clayton Act was to prevent undue concentration of economic power through horizontal, vertical or conglomerate acquisitions.

20. The proposed Final Judgment provides relief which is consistent with the main theories upon which this action was instituted and, in particular, with the plantiff's understanding of the Congressional purpose underlying Section 7 of the Clayton Act "to limit future increases in the level of economic concentration resulting from corporate mergers and acquisitions." S. Rep. 1775, 81st Cong., 2d Sess. 3 (1950).

21. In agreeing to a divestiture of the magnitude required by the proposed Final Judgment, LTV recognized that, upon entry thereof, it would forego its opportunity to contest, inter alia, plaintiff's claim that Section 7 of the Clayton Act bars acquisitions by reason of the anticompetitive effects resulting from mergers which constitute part of, and contribute to, a merger movement and which effect substantial increases in economic concentration. LTV nevertheless agreed to such a divestiture in the belief that a consent settlement would benefit the more than 45,000 public stockholders of LTV and J&L because the protracted the acquisition and is therefore in the public interest.

32. In view of the facts recited in Paragraphs 27 through 31 above, the plaintiff believes that the defendants' agreement to the anti-reciprocity provisions of Sections VII and VIII of the proposed Final Judgment provides substantial protection against the anticompetitive effects which would otherwise result from the acquisition and is therefore in the public interest.

¹ United States v. Northwest Industries, Inc., Civil Action No. 69 C1102. filed May 31, 1969, in the United States District Court for the Northern District of Illinois; United States v. International Telephone and Telegraph Corporation and Grinnell Corporation, Civil Action No. 13319, filed August 1, 1969 in the United States District Court for the District of Connecticut; and United States v. International Telephone and Telegraph Corporation and the Hartford Fire Insurance Co., Civil Action No. 13320, filed August 1, 1969, in the United States District Court for the District of Connecticut.

C. Ban on Acquisitions

33. Section V of the proposed Final Judgment prohibits LTV and J&L (if not divested or disposed of) for a period of ten years from the date of entry of the Judgment (or until LTV disposes of all its interest in J&L from acquiring any firm having assets in excess of \$100 million without the prior approval of the plaintiff, or failing such approval, of the Court.

34. The plaintiff represents that this restriction of future acquisitions by defendants LTV and J&L addresses itself to a principal objective of the Complaint herein, namely, the merger movement among large firms and the accelerating trend toward economic concentration in the American economy and, under all the

circumstances, is in the public interest:

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION, August 10, 1970.

To: J. F. Ryan. From: E. J. Gerrity.

UBGENT

JOHN: As a follow-up to what we did Friday with Colson et al in re anti-trust it is important that Bob Schmidt, Dita Beard, Horner-Goodrich, and whomever else should be aware, that we acquaint key people with what happened last Tuesday, followed by the Chaffetz meeting on Thursday, plus our actions on Friday. The purpose is not to have these people act but to have them informed

so that they may be ready to act—if needed.

I discussed this with Bill Merriam and Tom Casey and Ed Wallace is aboard here. (Keith is en route to Rio with Hendrix for a two-week visit.) Dita, for example, should brief Rog, Bob et al. Schmidt and the rest, Ray and Bert, will know what to do and Jack and Bernie should be aware and keep their ears open in re what is happening to "Mac," the key to the whole thing.

Bill McPike should be intimately aware and I ask that you and Tom Casey review this closely with him and confirm to me or Ed Wallace that this has been done. I will give you every available input from this end. And, Tom, don't forget Kevin. I'll call Jack today.

One last key reminder: when Hal saw John, he commented on the Savannah speech of June 6, 1969 to this effect: We do not say that bigness is bad; we said that if you merge within the top 200 you may have antitrust problems. Some mergers are good. It is interesting and important that we note that Mac is more responsive to Hart and Celler than to John and the President. It is also important to remember that Chaffetz went to Mac at the suggestion of Judge Austin to see if an agreement could be worked out. Our job is to keep reporting what is happening.

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE

Date August 24, 1970

To: Mr. W. R. Merriam. From: John F. Ryan. Subject: Highpoints.

Bill: Here are just a few items that I wanted to be sure I don't miss when

I bring you up to date verbally:

1. ANTITRUST

You know of my call on Stans on the 19th (you have a copy of my note covering the visit which I sent to Ned), and HSG's call to me of the 20th. I attempted to explain to Hal that Stans' comments shouldn't necessarily be construed to be a recommendation—it was more in the vein of Stans thinking out loud, suggesting some tangible starting point. Hal's posture is, as you well know, that we have done nothing wrong, that we will do nothing wrong, and that Justice (McLaren) is unfairly harrassing us. As we discussed this morning, then first trial dates are rapidly approaching. Obviously, somebody is going to have to get the ball rolling, either on their side or ours', if there is to be a settlement.

I assume that following our telecon this morning you looked at Ned's memo describing his visit with Agnew. If Kleindienst follows through, this may be the break for which we have been looking. An obvious question is: How will McLaren react?—or another way to put it, How good a Republican is McLaren?

2. OFDI

You will recall that the intelligence gleaned from Colson has led us to believe that there would be some relief forthcoming during 1970, then Billyou's memo taking exception to this intelligence and lastly, Stans' remarks which indicated relief would probably not be experienced until next year. Billyou happened to be here when Ned came during last week. Billyou joined Ned, Bob Schmidt, Bill McHale, and me for a drink at the Carlton and we further discussed the subject with an agreement that we would all think about it and see what we could come up with. It was first suggested that we get back to Colson and ask if perhaps we had misunderstood. When I talked to Hamilton (at Ned's request) last Wednesday, Lyman suggested we ask Colson if relief was coming during 1970, was there to be relief of a specific nature, i.e., case by case, or 'was it to be generic. During our tete-a-tete in the bar it was decided that our strategy would be not to go back to Colson; the reason being that if it does not come, we can go to Chuck and say: "My golly, Chuck, you led us to believe that we were going to receive relief, we planned accordingly, it didn't come, and now we're in a terrible bind—you've got to help us." Meanwhile Ned called this morning and said that we should develop an action program on OFDI, incorporating some calls we should set up for Perry and Hamilton. When we've got it together, we will send it to New York, and then our people will get together with Billyou to discuss it. If memory serves me, Ned said he would be seeing Hamilton on Wednesday in Chicago, I think he said it was a dinner for Pat O'Malley. Ned also mentioned that we should include some calls of an unofficial nature at Treasury. We'll have to talk some more about this subject. Note: Please see Billyou's memo of August 20.

3. BOGER'S PARTY

The tentative date on this is September 13. Ned has called me a couple of times on this, as has Rose in followup. You know the reason for this party, but the guest list also will include a number of other cabinet people such as the Blounts, Wilsons, Dominicks, Agnews, Harlows, Fords, and Flanigans. Ned asked that we put together a poop sheet for Mr. & Mrs. Geneen which will include not only brief bio's of the men but also their wives for June; facts about Morton's farm; a fairly complete blo on Mitchell and his recent accomplishments in other areas such as crime, durgs, etc; some detail on the new Post Office plan; and then general information as to the type of clothes to wear, planned activities, etc. I asked Jack Horner to put this together, but Dita will have to get the information concerning the farm, etc. Rose called me Friday, saying that Gerry Hood wanted to confirm the date of 9/13. I told her that she had better hedge a little in that the date was not "cast in concrete." Accoring to Dita, not everyone has yet been asked, and, while it was the tentative date, this could change.

4. "DITA AND DOLLARS"

I was asked by Ned to get some feel for your from Dita as to what is required. I have a little note on this which I will give to you.

5. BUDGET

I have gone over the budget with Bob—it's ready for review. There are a few items we should kick around. I took Bob over to U.S. Steel and looked at their security set up. Bob Miles has a representative from the company who installs these systems coming in on Wednesday for a survey. Based on USS's expenditure, it would appear that we could do both floors in a comparable manner for something under \$1,000. This is the old electrical ribbon idea which is a good answer for our glass entrance panel.

6. FOREIGN BANK ACCOUNT BILL

Joyce has been following this and due to the recent inclusion of the provision that would require declaring money brought in as well as out, this can be po-

tentially very "troublesome," Bob Schmidt and I discussed this on Friday. Joyce should have the print within the next day or so. It was not available today—we understand that there are some loopholes, but they may or may not help our C81186.

7. FEC COMVETS

Joe Ceva and John Gardner were here on Thursday and Friday. Pittman also called me on Thursday. Our two competitors are Page and Philco-Ford Pittman is concerned Waldschmidt of Page is in desperate straits and trying to bring pressure in high DOD levels to challenge our figures as being unrealistically low. We learned today that all three proposals have been returned for further clarification. Bob Miles has his friend watching this one very closely. According to FEC, based on the numbers, we are the apparent winner, but they fear we may be knocked out of the box. So far, our intelligence would have us to believe that we are still number one. I have asked Bob Miles to continue to watch this one very closely.

Bill, on another FEC matter, you will recall I passed on what Chasen was quoted as having said concerning FEC's loss of JPL job—please ask me to refresh

your memory on this one.

There are a numer of other items I will discuss with you, some more important than others. Without regard to their priority, they are as follows:

(1) Levitt-Waste Disposal Project with FWPCA

(2) ITT Worldcom's lay-offs

(3) Occupational Safety Legislation—George Orth/Ray O'Brien (8)/11) (4) Expediting Act

(5) Ed Mitchell, Patton, Bow called me on 8/17-will be furnishing us with a position paper (6) Who's Who-Floyd Owens called, and I tried to call him without

success-don't know what this is about

(7) Nord Schwiebert/Airport Transport Terminal—visit with me on 8/19 (8) Class Action Bill—please see Joyce memo of 8/21 and Bob Deasy's of same date

There are a few other items of minor importance, I'll pass them on to you. Welcome back!!

APPENDIX II

ITT INTERNAL DOCUMENTS, 1970

TO: Mr. F. J. Dunleavy of Confle Elections

Hal said that as far as the Chile elections coming up are concerned he feels that the Chile expansion will help people we want to get elected. What can we do to help.

Rid

cc - REB

Personal and Confidential

Richard E. Bonnell

Tim:

Further to our conversation yesterday morning, attached is a report from lack Neal listing the State Department's outlook on the Chiloan

In keeping with Hendrix's telephone call, Neal's report indicates clearly the need for Alessandri to have support in the Congress. Accordingly, I am instructing Hendrix to make the commitment on the 50% basis, as discussed.

W. Guilfoyle E.R. Wallace

E. Dunnett/H. Hendrists THE CAY FOR

CONFIDENTIAL

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INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE

1707 L STREET, N.W.

CONTIDEITHAL

Mr. E. J. Gerrity, Jr.

DATE

August 17. 1970

FROM: J. D. Neal

Sussess Chile Election - Report No. 3

With the Chile election less than three weeks away - September 4, I have discussed the possible outcome with the Department of State.

Without attempting to estimate the present pre-election standing by percentage, the State Department's poll indicates Alessandri and Allende are running very closely, with Tomic in third position, but quite near the leaders. I was informed that neither the Embassy in Santiago nor the Department of State is willing to predict a certain winner. This cautiousness is general: news media and other observers do not foresee a clear-cut majority of popular votes for any of the candidates; therefore, are also reluctant.

In case there is no majority victor, the Chilean constitution calls for Parliament to elect as president one of the first two leaders. This still leaves the outcome in doubt because no party has a congressional majority. To obtain the presidency by Parliamentary election, the winner must receive more than one-half of all congressional votes cast; this-means more than 100 of the 200 member votes. Dr. Allenda and his Markist backers have approximately 80 votes; Ambassador Tomic and the Christian Democrate about 75; and the Independent Ex-President Jorge Alessandri some to odd.

This presidential campaign has reached a new Chilean low in personal rancor and vindictiveness. The character scars and hurt feelings mostly will be short-lived, but much future brooding and retaliation is foreseen -- regardless of the winner.

cc: E. Dunnett

H. Hendrix

W. Merriam

AUG 26 19/u

SYSTEM CONFIDENTIAL

THIS IS A CRYPTEL MESSAGE 240 INDICATOR "ANNEX" THIS IS 3520035 CHILTEL

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(FOLLOWING RECEIVED CRYPTO)

GUILFOYLE INTELCO NYK FROM: HOLMES CHILTELCO SANTIAGO DATE: AUGUST 26, 1970

RECEIVED: 11:15PM FS ITT COMMUNICATIONS 1212-0

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SYSTM CONFIDENTIAL

2/152 AFTERHOON NEWSPAPER ''LA SEGUNDA'' DESCLOSED YESTERDAY EXPROPRIATE IF ELECTED ON SEPTEMBER FOURTH.

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WHEN IN A MEET THE PRESS TYPE OF MEETING LATER HE WAS ASKED

TO COMPLETE MF SAIDLY REPLIED "SOME OTHER 100

HAD BEEN LEFT OUT'

LIST COVERS PUTLIC UTILITIES (CHILTELCO INCLUDED), COPPER, BANKS, MAJOR CONSTRUCTION FIRMJ, PRESS AND PRINTING CORPORATIONS, SUGAR REFINERIES, CLOTH INDUSTRIES, VINEYARDS, SAWMILLS, OIL

HOUSTRIES, CICOTA TROUSTRIES, VINEYARDS, SAVAILLS, OIL INDUSTRIES, CIC.

A FEW WAMES: CHILTELCO, EL TENIEMIE, CERRO CORD. PHILIPO CHILEMA, RCA, FOND, EL MERCURIO, IBM, EMBOTELLADOBA, ANDINA (COCA COLA), LOTA SCHWAGER (COAL) BETHLEKEM STEEL, FIRST MATIONAL CITY BACK, ESSO, SHELL, EIC. OBVIGUSLY THE INFORMATIO WAS PUBLISHED AS A BLOW AGAINST ALLENDE WHOSE PUBLICISTS HAVE AIMED AT PROVING HE WOULD RESPECT LAY, RICHTS AND TRADITION AND THAT VIOLENCE IS NOT PART OF HIS PROGRAM. OBVIOUSLY THE INFORMATION

HOLNES

SYSTEM CONFIDENTIAL

ORIGINAL TO MR GUILFOYLE COPY TO MR STIHSON

(3) LATIN AMERICAL TEL.

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System Confidential 060

TO H. HENDRIX - ITIHO BY FROM R. BERRELLEZ /ITTLA BA DATE SEPT. 1, 1970 RECEIVED III CRYPTO REALISTO GEORGE OF TIT COMMUNICATIONS 06070

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CC E. GERRITY, E. VALLACE, K. PERKINS, E. DUNNETT - ITTHQ NY

URGENT, , , , , , , , , S T E M CONFIDENTIAL LA-3677/I PART ONE OF THREE PARTS

SUMMARY OF CHILCAN PRE-ELECTION SITUATION AS OF NOON (EST) SEPT 1.

ELECTION DATE: SCPT. 4
CARDIDATES: JORGE ALESSANDRI, CONSERVATIVE, SALVADOR ALLEGDE
COMMUNIST PARTY-FAR LEFT COALITION, RADONING TUNIC, CHRISTIAN
DEHOCRATIC PARTY.

- 1. MOST RELIABLE INDICATOR'S POINT TO A VICTORY BY CONSERVATIVE CAMBIDATE JOAGE ALESSARDED BY SOME AS PER CENT OF THE TOTAL VOTE IN THE PRESIDENTIAL ELECTIONS.

 HOYEVER, THIS DOES NOT AT ALL INSURE THAT HE'LL ASSUME THE PRESIDENCY AND, IN FACT, SEEMS ALMOST CERTAIN TO LEAD TO VIOLENCE THAT WILL PUT THE MAILOU'S SECURITY PORCES TO A SEVERE TEST.
- 2. THE OTHER TWO CAMDIDATES, ALLENDE AND TOMIC, ARE EXPECTED TO FINISH 2-3 RESPECTIVELY.
- 3. SINCE LAW REQUIRES THAT ANY PRESIDENTIAL CANDIDATE MUST OBTAIN BETTER THAN 50 PER CENT OF THE VOTE TO WIN, IT IS CERTAIN THAT CONGRESS WILL DECIDE THE WINNER IN A SESSION NO LATER THAN OCT. 24.
- 4 . THE LEFTIST FACTIONS (PDC-UNITED POPULAR FRONT) COMPROL 157
 OF THE 200 SEATS IN CONGRESS. A CONGRESSIONAL RUNOFF REQUIRES
 A SIMPLE MAJORITY (101 SEATS) TO ELECT A PRESIDENT. THE CONGRESS
 IS NOT REPEAT NOT OBLIGATED TO RECOGNIZE AS PRESIDENT THE—
 CANDIDATE WHO OBTAINS A SIMPLE PLURALITY IN THE REGULAR VOTE,
 ALTHOUGH THADITION HAS BEEN THAT THE MAN OBTAINING A PLURALITY
 HAS BEEN VOTED IN BY CONGRESS. BUT, FOR A VIDE VARIETY OF REASONS—
 -THE TORRID EMMITTES BETWEEN RIGHT VS. LEFT, THE SURGE TOWARD
 LEFTIST-NATIONALIST SOCIALISH THROUGHOUT LATER AMERICA BUT
 ESPECIALLY IN CHILE TRADITION MAY HOT SURVIVE THE FORTHCOMING
 TEST.

TABLESKIA YOUR TONE

PART TWO OF THREE PARTS

Systems Could be abut

- 5. THIS WOULD APPEAR TO DOOM ALESSANDRI'S CHANCES IN THE CONGRESSIONAL RUNOFF, EXCEPT THAT THE LEFTIST FACTIONS ALL SERIOUSLY FISSURED OVER IDEOLOGY, STRATEGY AND OBJECTIVES.
- 6. FOR INSTANCE, ALTHOUGH SOME OF THEIR BASIC AIMS (SYATE CONTROL OF SOME ASPECTS OF BUSINESS, COMMERCE, FINANCE) ARE SIMILAR.

 THE COMMUNISTS AND THE PDC DIFFER WIDELY ON THE PRACTICAL IMPLEMENTATION OF POLICY AND OTHER IDEOLOGICAL CONSIDERATIONS.
 BOTH THE PDC AND THE ORTHODOX NOSCOU-ONIESTED COMMUNIST PARTY ARE COMMITTED TO NON-VIOLENCE, BUT MANY OF THEIR EXTREMIST FACTIONS ARE NOT.
- 7. AMONG THESE ARE FAR LEFT MILITARTS AMONG THE PDC, THE SOCIALIST PARTY, THE CASTROITES AND FRINGE GROUPS INCLUDING ONE PEASANT OUTFIT VELL ARMED WITH PITCHFORMS, CLUBS, ROCKS THAT BRIEFLY TOOK OVER THE CATHOLIC UNIVERSITY ON MORDAY OVER A MINOR SQUABBLE. THE EXTREMIST GROUPS ARE KEDYN TO BE PLOTTING VIOLENT ALTERNATIVES IF THE ELECTIONS GOES AGAINST THEM.
- 8. A KEY FACTOR IN THE INEVITABLE COMPRESSIONAL SHOWDOWN FIEL BE THE MARGIN BY WHICH ALESSANDRI WINS. PRESIDENT FREI MAS TOLD ALESSANDRI'S LIEUTERANTS (AS RECENTLY AS LAST WEEK) THAT IF THEIR MAN WINS DY 100,000 OR MORE VOTES, HE WILL USE THE POWER OF HIS OFFICE TO PERSUADE CONGRESS AND THE MILITARY TO SEE THAT ALESSANDRI IS QUICLY RATIFIED AS PRESIDENT.
- 9. ALTHOUGH THE ARMED FORCES ARE SUPPOSED TO BE APOLITICAL COLLECTIVELY, THEY'LL CARRY CONSIDERABLE INFLUENCE INTO THE IMMEDIATE POST-ELECTION SITUATION. SOME THREE MOBILS AGO THE ARMED FORCES BOSS, GEN. RENE SCHISIDER, DECLARED PUBLICLY THAT THE ARMY WOULD RESPECT ANY DECISION HANDED DOWN BY CONGRESS. THE UNUSUAL PRE-ELECTION STATEMENT WAS UNDERSTOOD TO MEAN THE MILITARY YOULD NOT HECESSARILY FEEL OBLIGATED TO RECOGNIZE THE RESULTS OF THE POPULAR VOTE.

END OF PART TWO OF THREE PARTS

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PART THREE OF THREE PARTS

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- 10. ALESSANDRI'S LIEUTENANTS UNDERSTOOD FREI'S PLEBSE TO MEAN HE WOULD ORDER SCHREIDER -IMMEDIATELY AFTER THE VOTE COURT CONFIRMS ALESSANDRI'S TRIUMPH BY THE DESIRED MARGIR- TO GO OVER TO ALESSANDRI AND SHAKE HIS KAND IN RECOGNITION OF HIS VICTORY. THIS WOULD HAVE A WEIGHTQINFLUENCE ON CONGRESS.
- 11. THIS HAS RAISED A QUESTION AMONG ELECTORAL AND POLITICAL EXPERTS AS TO WHETHER FREI HAS THE STATURE TO CARRY THIS OFF. SOME AUTHORITATIVE SOURCES BELIEVE HE CAN, BUT DEEP DOUBTS HAURT OTHERS WHO PICTURE LAMEDUCK FREI IN TROUBLE WITH HIS CAN PARTY.
- 12. THE LATEST SURVEYS GIVE ALESSANDRI 40-41 PER CENT OF THE TOTAL VOTE AND THIS TRANSLATES THIS ROUGHLY A 100,000 NANCIH GVER, ALLENDE, ROHEVER, EVER THE HEST SURVEY MACHINELS IN CHILL ARE PRINTICE IN COMPARISON WITH U.S. AND EUROPEAR FOLLS AND VEHAVE ONLY TO LOCK AT THE BRITISH ELECTION RESULTS TO RECOGNIZE THE FALLIBILITY OF EVEN THE MOST PROFESSIONAL AND SCIENTIFIC OF SURVEYS.

Systems Confidential

13. If Alessandri's margin falls appreciably under a 100,000 margin,

14 seems almost certain the consressional vote vill go either

15 allende or tomic. The view is that despite their differences.

The PDC and the communist bloc have basically a wider common ground for accomposation than with alessandri.

- 14. WHAT THE ARMED FORCES WOULD DO IN THIS EVERT IS ONE OF THE MAJOR ENIGHAS. THE MILITARY MIERANCHY IS KNOWN TO BE DEVIDED. SOME MILITARY EXPERTS SAY THEY MAVE KEITHER THE CAPACITY NOR EVEN THE INCLINATION TO DELIVER A COUP. THERE ARE EVEN FEARS THEY MAY LACK THE MEANS TO PUT DOWN A GENERAL POPULAR UPRISING. THIS DOES NOT MEAN, HOWEVER, THAT THEY CANNOT (AND WILL NOT) BE SPURNED ONE WAY OF THE OTHER— TO MOVE.

 NOVE.
- '15. FROM THE UPPERMOST CHILEAN INTELLIGENCE SOURCES WE HAVE LEARNED THAT THE EXTREMIST ELEMENTS ARE PLANNING A THREE-STAGE SABOTAGE AND VIOLEGE MARBUYER IN SANTIAGO AND LARGER URBAN CHILERS IN THE EVENT THE VOTE STARTS GOILS STRONGLY FOR ALESSANDRI. WE HAVE LEARNED THEY'D START THEIR HOVEMENT SONETIME AFTER THE POLLS CLOSE SCPT. 4 AND AFTER A DEFINITE TREND HAS SET IN, EXPECTED ANOUND MIDNIGHT.
- 16. THE CHIEF OBJECTIVES OF THE TERRORIST CAMPAIGN ARE (A) THE VATER SUPPLY SYSTEM (7) THE ELECTRIC POWER STATIONS AND (C) COMMUNICATIONS, CHIEFELCO AND CABLES-TELEX, TELEGRAPH.
- 17. WE HAVE INFORMED HOLMES AND MARIO BASSO IN SANTIAGO OF THESE PLANS AND SUBSECTED APEQUATE SECURITY PROCAUTIONS. MIKE WELLS AND JOE GONZALEZ ALSO HAVE BEEN TOLD.

ORIGINAL TO

MR HENDRIX
MR GERRITY(33PD FL)

REGARDS.

BERRELLEZ.

System Confidential

MR WALLACE MR PERKINS MR DUNNETT



(2) LATIN AMERICA UFG.

AIBEL BERNETT COOKSON	OUNLC. KURTA GENFE	UGH HAPILTON	RUNYON KHORTZ KELLER, J.H	UC CADE NO HEILL PERRY	SCHAFFER WEADOCK
	I'ACH HES	DRITTENHAM CROSBY KLEMMAMMED	FAIRFICLD FLAKS PIEGGOS	QUILFOYLE HGDGSOH KURKKAN KOLLUCYER	MATHAL MOSSICEG THEOLEL SPARKS

THIS IS 3520035 CHILTEL · INTELCO BERYOUR 420769

PART ONE OF FIVE PARTS

1.11

10: STIESON INTELCO BYK

FROM: HOLDES CHILYCLCO SANTIAGO DATE: SEPTEMBER 2. 1970

COPY GIRBS INTELCO NYK

SYSTEM CONFIDENTIAL

PECCEIVED 7: 60PH COT/CD 117 confunition tons 14170

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\$/102 PART ONE OF FIVE PARTS

CHILTELCO WEEKLY REPORT

TO AUGUST 31 TOTAL YEAR

VARIANCE ACTUAL/FORECAST FORECAST 9,624 \$,023 (815) (B) 15,248 15,467

(A) PROFIT ON ENGHANGE 629, LOVER SPECIAL RESERVE CORFO 2241, LOWER EXPENSES 1,396, HIGHER HISCELLANDUS 219, OFFSEY BY LOVER REVERUES (1,685), HIGHER INCOME TAX (1,681), AND HIGHER NET) HTFREST (517).

(B) LOWER REVENUES (5,801) RICHER NET INTEREST (291), OFFSET BY LOVER SPECIAL RESERVE CORFO 3,327, LOVER EXPENSES 1,571, LOVER INCOME TAX 12, HIGHER HISCELLANEOUS INCOME-459 AND PROFIT ON EXCHANGE 1,444.

11. STATION GAIN

VARIANCE YEAR TO DATE TO AUGUST 28 BUDGET VARIANCE 3,700 10,129 . 1,080 277 13,829

THE VARIANCE OF 10,129 IN THE YEAR TO DATE IS DUE TO 7,912 CARRY OVERS FROM 1969.

III. FINANCIAL ACTIVITIES

-Systom Coefide dei

IF REVENUES AND EXPENSES

ACTUAL FORECAST BUDGET VARIANCE 42,413

2,672 (A) 42 (P) 45,985 AUGUST 31 67,219 TOTAL YEAR 67.310

(A) PROFIT OF EXCHANGE 2,117, SPECIAL RESERVE CORFO NOT INCLUDED IN THE ACTUAL REVIGUES 2,041 AS. 90 MAYE TO COVER OUR 10 070 RETURN FIRST, RIGHER DESNAGE TOLLS DOBESTIC 334 HIGHER OTHER 30

OFFSET BY LOWER SUBSCRIBER'S STATION REVENUES (1,563/LOWER LOCAL PUBLIC PAY STATION REVENUES (124) LOWER INSTALLATION MOV. AND CHANGE (3G1).

(B) PROFIT ON EXCHANSE 3,456, SPECIAL RESERVE CORPO NOT INCLUDED IN THE ACTUAL REVENUES 3,387 AS JE NAVE TO COVER OUR TO 070 KETURE FIRST, OFFSET BY LOWER SUBSCRIBER'S STATION REVENUES (4,587) LOWER LOGAL PUBLIC PAY STATION REVENUES (269) LOWER INSTALLATION NOW. AND CHANGE CHARGES (653) LOWER MESSAGE TOLLS DOMESTIC (1,043) AND LOWER OTHER (49).

EXPERSES	ACTUAL/FORECAST		BUDGET	VARIABCE	

TOTAL AUGUST	31	28,393	28,723	330 (A)	
TOTAL YEAR	-	42,587	42.896	309 (8)	

- (A) LOWER OTHER EXPENSES OF OPERATION 420. LOWER MAINTENANCE 632, LOWER A AND G EXPENSES 227, LOWER DEPRECIATION 222, LOWER OTHER 2, OFFSET BY RIGHER OTHER EXPENSES (107) AND LOSS OF EXCHANGE (1,066).
- (B) LOWER OTHER EXPENSES OF OPERATION 1.00%, LOWER A AND G EXPENSES SOLY LOWER LATRICIATION 3.5%, LOVER THIS SAME AFT. OFFSET BY HIGHER TRAFFIC EXPENSES (182), HIGHER COMMERCIAL EXPENSES (113), AND LOSS ON EXCHANGE (1,362).
- 2. INVENTORIES

AUGUST FIGURES NOT AVAILABLE VET. SYSTEMS COMME

3. COLLECTIONS

ALTHOUGH FIGURES FOR AUGUST ARE NOT AVAILABLE YET WE EXPECT RESULTS TO IMPROVE AS A CONSEQUENCE OF THE CUT OFF DATE BEING THE LAST DAY OF THE NORTH.

. SERVICE

1. 0/0 COMPLETE INITIAL ATTEMPT

2. INITIAL TROUBLE REPORT PER 100 STATIONS 3. SPEED OF AUSTER TOLL (IN TEN SEC)

DOMESTIC - DAY BK

81.7 79.0

SERVICE PROBLEMS - GENERAL

NO COMMENTS.

V. NAJOR OUTAGES

Sycical Coolider

1. CAPLES - NONE

2. COE TROUBLES - NOME

VI. CURREUT EXPANSION PROGRAM STATUS

1.. CENTRAL OFFICE PROBLEKS "

WE ARE STILL MAVING PROBLEMS IN CLEARING MATERIAL FROM CUSTOS SPECIALLY MITH UMAT IS 19 PUDANUEL. THIS DELAY IS CORFO'S RESPONSIBILLITY AND INVOLVES MARFITAL FOR SAITA ISABEL, PEDRO DE VALDIVIA IV AND APOQUIMDO. PURCHASIFG IS AGAIN INVISITION WITH CORFO TO SEE WHAT CAN BE DONE, BUT DUE TO PROMIMITY OF ELECTIONS THERE IS NOT MUCH ASSURANCE IT UILL BE GUIT BEFORE MEXT WEEK.

SANTA ISABEL IS ON TARGET FOR THE VORK PROGRAMMED FOR THIS WEEK AND HAVE REGAINED SOME GROUND WITH REGARD TO THIS SLIP REPORTED LAST WEEK. IT IS ESTIMATED THAT CSEARC INSTALLATION WILL BE TOTALLY ON TARGET IN TWO WEEKS TIPS.

PRINCIPAL 111 2.000 LINES WAS TO HAVE BEEN HANDED OVER AUGUST 30 HOWEVER CTC ENGINEERING INTRODUCED MINOR JUMPERING CHARGES TO IMPROVE GRADING. ESTIMATED HANDOVER DATE NOW. IS SEPTEMBER 12.

2. OUTSIDE PLANT PROBLEMS

IMPORTED DISTRIBUTION CABLES, THE CENTRAL BANK HAS NOT YET HANDED OVER IMPORT LICENCE NUMBERS FOR THESE CABLES, DUE TO REGULATIONS GOVERNING LESS THAN FIVE YEARS CRUDITS, WHEREBY OUR REQUEST WAS SPLIT INTO THREE MONTHLY CUCTAS. THE ACTORIES ARE AVARE OF THIS AND WILL PROCEED CONSEQUENTLY.

VII. RED FLAG ITEMS

- NO CHARGE FROM LAST WEEK.
- 2. TOLL SERVICE PROBLEMS
 NOTHING TO REPORT.

VIII. SERVICIOS ELECTRICOS
HOTRIRG TO REPORT.

System a Confidence of

- IX. OTHER PROBLEMS
- 1. ECOPONIC

CHILE'S GROSS INTERNAL PRODUCT INCREASED 4.5 PERCENT IN 1959.

THE PROJECT OF LAW FOR THE 1971 BAYLONAL SURGEY WAS PRESENTED TO COMMERS. IN GENERAL THE DUDGET IS 10 070 NIGHMER THAN THE CHE FOR THE CUPARRY YEAR AND IS BASED ON COPPER REVENUES ESTIMATED AT 52 OFFICE PER POUND. IT ALSO CONSIDERS & 30 070 INCLUDING HAVE IN 1970.

FIRAL FIGURES FROM THE POPULATION CENSUS WERE RELEASED SHOWING YMAT POPULATION GROWTH WAS LOWER THAN EXPECTED, UNDER 2 0/0 VERSUS A 2.56 0/0 PER ARBUM IN THE PERIOD 1952-1850.
TOTAL POPULATION IS 9.168.584 OF WHICH 36 0/0 LIVE IN SANTIACO.
AFTER 24 DAYS ON STRIKE THE NATIONAL HEALTH SERVICE EMPLOYEES RETURNED TO YORK.

2. POLITICAL

AT ONLY INO DAYS FROM ELECTIONS DAY, THE SITUTATION CONTINUES TO BE CONFUSING WITHOUT ANY OF THE CAMBIDATES SHOWING SUBSTANTIAL GAINS OVER THE OTHERS.

ALESSAUDRI AND ALLEMDE CARRIED OUT LARGE RALLIES WITH ATTENDANCE OF ROUGHLY 200,000 PEOPLE EACH. TOMIC IS SCHEDULED TO HAVE HIS RALLIE TODAY.

BEST COPY AVAILABLE

THE COVERNMENT HAS ALREADY TAKED ALL RESERVENT STEPS TO FORWARD THE PREE PROCESS ON STREETING DAY.

AS FER AS COMPRESATIONS ARE CONCURRED THE GOVERNMENT

WAS HAD FULL COOPERATION TROM CHILITELCO AND HAS CHOSEN TO USE OUR TOLL CIRCUITS FOR TRANSMISSION OF INFORMATION FROM THE PROVINCES, LEAVING ENTEL CIRCUITS FOR BACK UP PURPOSES OULY.

CHILTELEO HAS BEEN TOTALLY IMPARTIAL IN ATTENDING REQUESTS FOR TELEPHONE SERVICE FROM THE THREE CARDIDACIES WITHOUT

HAVING RECEIVED ANY COMPLAINT FROM THEM.

ALL SAFETY MEASURES HAVE BEEN TAKEN TO PROJECT OUR

CENTRAL OFFICES AND OTHER FACILITIES.

IN YESTERDAY'S RALLIE, ALLENDE REFERRED TO THE

NATIONALIZATION OF CHILTELCO AS PART OF HIS EXPEOPRIATIONS

PROGRAM, HIS WORDS REFERRED TO CHILTELCO AS A COMPANY WHICH
ONLY INSIALLED PROMES IN THE TORE AFFLUENT SCHOOLS OF THE ORLY INSTALLED PROJECT IN THE ESSEE AFFLUENT SECTIONS OF THE CITY, HAD HIS BOOKS OF ACCOUNT IN GOLD, MADE IN ENCIUSE OF DULLARS IN PROFITS ALSO STATED THAT, BRIDG A PUBLIC UNILITY, SHOULD NOT HAVE PROFITS BUT LOWER RATES TO MAKE THE SERVICE AVAILABLE TO THE LOWER CLASSIS. HE ALSO MENTAGED THAT CHILEARS SHOULD NOT BE AFFRAID OF BATIONALIZATIONS SIDEL GOVERNMENT OFFICE OFFICIALIZATIONS HAD PROVED TO BE MAKE EFFICIAL THAN PRIVATE ORES. HE MENTIONED ENVEL AS AN ENABLE, FIRMOUT OF THE SPECK WAS INCLOSED BY SEXATOR LANDS. FOR THE REASONS IN YOUR AND. WAS INCLUDED BY SENATOR TARUD, FOR OUR KNOWLEDGE, SINCE THIS IS WHE FI REASONS IN YO TIME ME EVER THE CHARUCY ROITHING RE FIRST

HOLMES

COPIES TO HE STIESON

System Co

(3) LATIN MIERICAL TEL.

•	AISEL BESSETT COOKSON	DURLEAVY HURTAURII GERIERI	HARMAY HARMAY GERRIAY	REVYON KELLER		MC CABU MC NEIGL PERRY	SCHAFFER WYADOCK
	SHIP SHIP SHIP	BATTATU BANTETSA	******	-AND THE	*4:4:		
	•	processor Chosea Barres	ROLLONG		i incer	Pienson	l

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

10 K. Perkins

1804 Hal Hendrix 34

SUBJECT Chile Elections

DATE September 2, 1970

WHEN REPLYING, PLEASE QUOTE FILE

This Friday night and early Saturday morning, following the election in Chile, Ed Dunnett will be checking regularly by telephone with the AP and JPI on the voting tabulations from Santiago. He will advise Gerrity, Wallace, you, Guilfoyle and Stimson of the results as he obtains them.

cc: E. Gerrity, E.R. Wallaco, E. Dunnett

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RECEIVED 1 00 PH TJH ITT CONSUMICATIONS 5739/P

TO : CD DUNNETT, ITTHONY FROM : ROBERT BERRELLEZ ITTHORLDCOM SANTIAGO

DATE : SEPT 4. 1970

GERRITY, MALLACE, PERKINS, ITTHONY., HENDRIX MICROPHONE CC MEXICO.

SUBJECT : ELECTIONS

VOTING IN OME OF THE MOST IMPORTANT ELECTORAL TESTS IN LATIN AMERIC! HISTORY BEGAN AFTER 0800 (SAME TIME AS EASTERN DAYLIGHT) TODAY AND WAS PROCEEDING MITHOUT INCIDENT UP TO HOOM.

THE TEATHER-TEMPERATURE IN SIXTIES, HAZY-TWAS IDEAL IN THE SANTIAGO AREA WHERE OVER A THIRD OF THE 3.4 MILLION ELEGIBLE VOTERS ARE REGISTERED. A 10 TO 15 PER CENT ABSTENTION TAS ANTICIPATED EVEN THOUGH VOTING IS COMPULSORY FOR ALL OVER 21 YEARS OF AGE.

REPORTS FROM THE INTERIOR OF THE COUNTRY ALSO REFLECTED ORDERLY VOTING WITH ONLY SCATTERED MINOR INCIDENTS RECORDED.

THE ELECTION IS A CRUCIAL TEST OF STRENGTH BETTEEN POLITICAL MODERATES AND MARKISTS. THERE IS A POSSIBILITY THAT ELECTION MAY BRING TO POSER THE FIRST COMMUNIST REGIME EVER VOTED INTO OFFICE THROUGH FULLY DEMOCRATIC PROCEDURE.

DESPITE THE OUTWARDLY PEACEFUL ATMOSPHERE, THERE WAS AN STRONG UNDERCURRENT OF ARXIETY OVER WHAT THE RESULTS MAY PRODUCE. THE GOVERNMENT IS KNOWN TO HAVE ORDERED EXTRAORDIMARY SECURITY PRECAUTIONS. FEARFUL OF VIOLENCE OFFER THE POLLS CLOSE (APOUND 5 P.M.) MANY FAMILIES LEFT THE SANTIAGO AREA AFTER VOTING. SHOPPING CENTERS WERE JAMMED YESTERDAY WITH PEOPLE STOCKING UP ON FOOD SUPPLIES.

SOME VOTING RESULTS MERE EXPECTED BY SEVEN OR EIGHT OCLOCK TOHIGHT AND A DEFINITE TREND NEAR MIDNIGHT. THE OUTLOOK REMAINS UNCHANGED FROM SITUATION REPORT FILED LATE TUESDAY SEPT. 1 FROM DUENOS

WILL FILE PERIODICALLY THROUGH REST OF DAY AS COMMITIONS MERIT.
DUNNETT: SUGGEST TAKE LIST OF CHILEARS GIVEN HENDRIX WITH YOU OVER
WEEKERD AS AM CERTAIN WILL HAVE TO RELY ON IT IF CRYPTEL FACILITIES SUDDENLY BECOME UNAVILABLE.

ANY MESSAGES FOR ME SHOULD BE ADDRESSED TO TELEX NUMBER 3520009 REPEAT 3520009. THIS IS PRESS CENTER IN HOTEL CARRENA.

BEST REGARDS

ORIGINAL TO MR DUNNETT COPIES TOMP GERPITY

ENDITH

HR HALLACE HR PERKIHS MR RENDELX- HY

(5) ICO

AIBEL BENKETT COOKSON

HURTAUCH **GENEEA!**

DUNLFAYY BARRAY

GERRITY HAHILTON

RUNYON KNORTZ KELLER, J.II. NC CARE HC NEILL PERRY

SCILLFFER WEADOCK

BRITTENIAN KOLLHEYER

HC NITT STINSON

STOI.LE PIERSON WESTFALL

ZCZC V80613 CEA177 U1X2 CM CZEG 000 SANTIAGOCHILE 42200 DA 515 P & DA 615 P A 650 P

ADX SUPERVISOR

PLEASE RELAY THE FOLLOWING TO ED DUNNETT AT AREA CODE

516 NUMBER 756-0855

FOLLOWING ADDE TO EARLIER ELECTION ROUNDUP:

POLLS CLOSED WITHOUT INCIDENT AND THE FIRST NATION WIDE

OFFICIAL RESULTS GAVE ALESSANDRI AN EDGE OVER ALLENDE AND

TOKIC RUNNING IN THAT CROER. THE FIGURES ARE TOO SMALL

AND INSTRICTION TO REPORT AT THIS POXENT.

WHAT IS SURPRISTED IS ALESSANDRI'S UNEXPECTED EARLY STRENGTH

IN LEFTIST STRONGHOLDS. HOWEVER, THE RESULTS SO FAR ARE TOO

THIN TO REFLECT EVEN THE HINT OF A TREND.

WHEN MORE SUBSTANTIAL FIGURES ARE AVAILABLE WE'LL UPDATE

REPORT.

NARN

ZCZC V=0656 CEA185 UIX9 CN CZSO GOO . SANTIAGCCHILE 42340

TO ITTWORLD COM MYX
UIXQ ATTTM ADX SUPERVISOR



RESULTS, BASED ON ROUGHLY 14 PER CENT OF TOTAL MEGISTERED VOTE SIVE ALLEMBE A MARROW MYARSIN OVER ALESSANDRI VITH TOYIC RUNNING WELL BEHIND.

THESE ARE NATIONAL UNOFFICIAL

TOTALS:

ALLENDE 180,518 OR 38.6 PER CENT OF VOTE

ALESSANDRI 165,519 OR 36.1 PER CENT OF VOTE

TOMIC 121,392 OR 24,5 PERCENT OF VOTE

THIS IS NOT REGARDED AS A TREND BY MOST OBSERVERS IN VIEW OF

THE SHALL NUMBER OF VOTES TABULATED. RESARDS

BERRELLEZ

UVVE

ZCZC V30575 CEA187 U1XQ CN CZSO 000 SANTIAUCHILE 4242C

TO ITT HEADQUARTERS NEWYORK UIXQ ATTN ADX SUPERVISOR ITTOON NEWYORK S11-711 0859

PLEASE RELAY THE FOLLOWITH TO AD DUNNETT:

FIRST OFFICIAL RESULTS GAVE SALVADOR ALLINDE MAXIST CANDIDATE.

AN EDGE OVER CONSERVATIVE COAST ALESSANDRI WITH RADDMIND TOKIC OF LEFTCENTER CRAISTIAN DEMOCRATS RUNNING WELL BEHIND. THE RESULTS ARE BASED ON A TOTAL OF SCO.338 OUT OF SOME 3.4 MILLION VOIERS OR ROUBBLY 27 PER CENT. IT'S STILL TOC EARLY TO ACCEPT THIS AS A TREND BUT IT LOOKS QUITE CERTAIN NOW THAT ALESSANDRI FACES A VERY DIFFICULT TASK APEAS IN THE EMPECTED CONGRESSIONAL. RUNOFF.

THE RESULT:

ALLENDE 344,571 OR 37.9 PERCENT OF VOTE ALESSANDRI 319,611 OR 35.15 PER CENT IOMIC 236,156 OR 26 PER CENT

BERRELLEZ

ZCZC V9C709 XQ PIXQ CN CZSC GJO SANTIAGCKILE 50215

TO ITTYCRLCCOM NO NYK



SCRIFFEUR ADA PUTA OKIU

FLEASE RELAY FOLLOWING TO ED DUMMETT AT AREA CODE 516 766-08591

WITH SOME AC PER CENT OF VOTE TABULATED OFFICIALLY, DEVELOPING THE APPLACE TO INDICATE THAT MARKIST SALVADOR ALLENDE WILL WIN LOPILAR VOTE IN CHILEAN ELECTION. CONSERVATIVE ALESSANDRI RUNNING THAT SECOND AND CHRISTIAN DEMOCRAT MADONIED TOMIC TRAILING WELL TRAINED. TOMIC HAS CONCEDED DEFEAT OF HIS PARTY.

THE TREND SUBJECTS THAT EVEN IF ALESCANDRI PANAGES TO PULL AREAD, HE'LL NOT CARRY SUFFICIENT, MARSIN OVER ALLENDE TO MIN COMPRESSIONAL SROWDOWN WHERE FINAL PRESIDENTIAL DECISION WILL BE MADE COL. 24.

THE OFFICIAL RESULTS OUT OF 1.687.951 OUT OF AND ANTICIPATED 3.4 "ILLICH VOICE CAST ARE:

ALLENDE 626,937 OR 35.86 PER CENT ALIESALDRI 604,782 OR 35.91 TOXIC 496,232 OR 26.8

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RESEN

2C2C V80741 CEA132

EANTIAGOCHILE 50330

(51)

IS ITT WORKCON NYK

ROSIVESCUS ADA MITA CXIU

PLEASE RELAY FOLLOWING TO ED DUNNETT AT AREA CODE 516 766-0855
WITH ABOUT ITO THIRDS OF VOTE OFFICIALLY TABULATED RESULTS NOW
CLEARLY INDICATE PARXIST SALVADOR ALLEMDS WILL WIN CHILEAN POPULAR
WOTE BY MARROY MARRIN OVER CONSERVATIVE JORGE ALESSANDRI. EVEN IF
ALESSANDRI MANAGES TO MALLY MITH REMAINING ONE MILLION VOTES TO
BE COUNTED HIS MARRIN WILL BE TOO SMALL TO IMPRESS CONGRESS IN
DOTOBER 24 RUNOFF BECAUSE ALLEMDS FORCES. CLEARLY DOMINATE BOTH
CHAMBERS.

RESULTS FROM 2,376,565 VOTES OUT OF SOME 3.4 MILLION AT 11 PM: PLLENDE 872,287 OR 36.36 PER CENT

ALESSANDRI 842,343, OR 35.18 PER CENT COMIC 661,435 OR 27,6 PER CENT TRAELLLEZ

. . .

ting of the state of the state

RANK

ZCZC VS0966 CEA256 UIXQ CN CZEO 000 SANTIAGOCHILE 51635

TO III WORLDOOK NYK

UIX9 ATTN ADX SUPERVISOR

PLEASE PHONE FOLLOWING TO ED DUNNETT AT AREA CODE 515 766-0859 ALL QUIET AND NOTHING NEW TO REPORT FOLLOWING MY LAST MESSAGE FILED EARLIER THIS MORNING. PREPARING EVALUATION WHICH SHOULD BE ON YOUR DESK TUESDAY UNLESS YOU WANT IT EARLIER. LET ME KNOW. I'VE PHONED HAL SO HE CLUED IN ON ALL. REGARDS BETRELLEZ

ZCZC ER0196 CEA196 UINY CH CCSO 000 EANTIAGOCHILE 050724 Phoned 8A.

TO ITT MORLDCOM HO NYK UIXQ ATTN ADX SUPERVISOR

PLEASE CALL THE FOLLOWING TO ED DUNNETT AT AREA CODE 516-7660559 AT 8 A.M. SATURDAY:

FINAL OFFICIAL RESEATS CONFIRM MARKIST SALVADOR ALLENDE THE MINNER OF POPULAR VOTE IN CHILLIAN ELECTION, HE AUST STILL DE RATIFIED BY CONGRESS IN OCTOBER 24 RUNOFF, BUT ITSALMOST CERTAIN HE WILL BE DECLARED THE MINNER UNWESS INFO.ESSEN SPLITS DEVELOP IN THE LEFTIST BLOC THAT CONTROLS THE BICAVERAL CHAMPER.

FINAL OFFICIAL RESULTS ANNOUNCED BY INTERIOR MINISTRY AT 0315 SANTIAGO TIME:

ALLENDE 1.075,616 ALESSANDRI 1.036,278 TOMIC 824,849

DERRELLEZ

THIS IS 3520035 CHILTEL INTELCO NEUYORK 420760

(FOLLOWING RECEIVED CRYPTC)

J W GUILFOYLE ITTHY FROM: B W HOLMES CHILTELCO SANTIAGO DATE: SEPT 5, 1970 RECEIVED: 10:30AH FS ITT COMMUNICATIONS 329-P

(RECEIVED ITTHONY 10:30AM/SEPT 7TH)

CI. F J DUNLEAVY, J M STIMSON, H HENDRIX ITTHY

URGENT SYSTEM CONFIDENTIAL

System Confidential

THE FOLLOWING ARE THE RESULTS OF CHILE'S PRESIDENTIAL ELECTION HELD YESTERDAY:

S. ALLIENDE

1.075.616 .036.278

36.3 0/0

J. ALESSANDRI 824.849

36.9 0/0 27.8 0/0

A 16 0/0 OF THE ELECTORATE DID NOT VOTE WHICH IS THE HIGHER

ABSENTERISM EVER EXPENIENCED.
ALLIENDE BACKED BY THE COMMUNIST, SOCIALIST LEFT WINGS OF RADICALS AND CHRISTIAN DEMOCRATS (MAPU) OBTAINED THE HIGHEST RELATIVE HAYORITY.

ALESSANDRI, INDEPENDENT BACKED BY THE NATIONAL PARTY OBTAINED THE SECOND RELATIVE MAYORITY.

TOMIC IS BACKED BY THE CHRISTIAN DEMOCRATS.

THERE ARE SILL SOME BALLOTS TO BE ACCOUNTED FOR BUT THESE RESULTS WILL HOT BE ALTERED.

CHILE IS THE FIRST COUNTRY THAT THROUGH DEMOCRACY HAS CHOSEN TO ELECT A MARXIST PRESIDENT.

I TRIED TO GET IN TOUCH WITH YOU AND JULE AS I WAS UNSUCCESSFUL, FREEMAN WAS REACHED AND REQUESTED TO RELAY THIS INFORMATION.
DUE THAT NONE OF THE CANDIDATES OBTAINEDIABSOLUTE
MAYORIDY, 50.01 0/0, CONGRESS WILL HAVE TO DECIDE ON OCTOBER 24.
IT IS ESTIMATED THAT CONGRESS WILL RATIFY THE FIRST RELATIVE

ORITY AS IT HAS BEEN THE TRADITION HERETOFORE. A HUGE RALLY WAS HELD AT 2.30 AM THIS NORMING IN DOWN TOWN MAYORITY

SANTIAGO BY ALLIENDE'S SUPPORTERS.

ALL ITT BUILDINGS ARE PROTECTED BY POLICE FORCE. I WILL KEEP YOU INFORMED OF ANY DEVELOPMENTS. REGARDS

KOLMES

System Confidential

ORIGINAL TO HR GUILFOYLE (PHONE) COPY TO MR DUNLEAVY

MR STIMSON MR HENDRIX

(3) LATIN AMERICAL TEL.

AIBEL BENNETT COOKSON

DUNLEAVY **MURTAUCH** GENEEN

CERRITY HAMILTON RANKAN

ROYYON KNOKTZ KELLER, J.H. NC CABE HC NEILL PERRY

SCHAFFER WEADOCK

BRITTENEAN CROSBY BARNES

GUILFOYLE KOLLNEYER HC NITT STINSON

STOLLE PIERSON CTHE FOLLOWING SHOWN AS RECEIVED, REPETITION WAS BEEN REQUESTED STRENG CONFIDENTIAL (FOLLOWING RECEIVED CRYPTO)

TO H. HENDRIX - ITTHO NY FROM R. BERRELLEZ/ITTLA BA

CC

RECEIVED: 7:45AH FS LTT COMMUNICATIONS 359-P

DATE SEPT 7, 1970 (RECEIVED SEPT 8)

E. GERRITY, E. WALLACE, K. PERKINS, E. DUNNETT - ITTHO NY P. JONES - ITTLA BA

THIS IS A CORRECTED COPY

URGENT SYSTEM CONFIDENTIAL LA-3734/I PART ONE OF THREE PARTS

SUBJECT: CHILEAN ELECTIONS, AN EVALUATION

- 1. OR. SALVADOR ALLENDE'S ELECTION BY CONGRESS ON OCT. 24 AS CHILE'S NEXT PRESIDENT HAS BEEN VIRTUALLY ASSURED BY THE PLEAGE OF SUPPORT HE HAS RECEIVED FROM THE CHRISTIAN DEMOCRATS, SECOND LARGEST CONGRESSIONAL BLOC.
- 2. THE POPULAR UNITY FROM (UP) LED BY ALLEHDE AND THE CHRISTIAN DEMOCRATS (PDC) WHO BACKED RADONIRO TOMIC IN LAST FRIDAY'S VOTING, COMMAND ROUGHLY 166 OF THE 199 (CORRECT) CONGRESS SEATS. ELECTION BY CONGRESS REQUIRES A SIMPLE MAJORITY, IN THIS CASE 100 VOTES.
- 3. THE PLEDGE OF SUPPORT WAS DELIVERED PERSONALLY BY TOMIC ON SATURDAY AFTER DR. ALLENDE HAD APPARINTLY WON THE POPULAR VOTING BY A PAPER-THIN MARGIN OVER DR. JORGE ALESSANDRI. THE CONSERVATIVE COALITION CANDIDATE. WHETHER OR NOT TOMIC ACTED WITH THE CONSENT OF THE PARTY HIERARCHY OR THE KNOWLEDGE OF PRESIDENT FREI IS NOT KNOWN. THE UNCHALLENGED FACT IS THAT TOMIC COMMANDS A WIDE FOLLOWING WITHIN THE PARTY AND EVEN AS A MAVERICK WILL CERTAINLY TAKE AT LEAST HALF OF THE PDC CONGRESSIONAL BLOC (75 VOTES) WITH HIM.

SYSTEM CONFIDENTIAL.

END OF PART ONE OF THREE PARTS.

PART IVO OF THREE PARTS

System Confidential

- 4. A VOTE RECOUNT IN UNDERWAY NOW. CHALLENGES OF ANY BALLOTS WILL BE ACCEPTED UP TO SEPT. 14. THE POPULAR VOTE RESULTS MUST BE VERIFIED BY AN ELECTORAL BOARD ON A DATE BETWEEN OCT. 11 AND OCT. 23. CONGRESS WILL VOTE IN THE NEW PRESIDENT ON OCT. 24. THE NEW PRESIDENT TAXES OVER NOW. 4.
- 5. THE ALESSANDRI FACTION HAS NOT SURRENDERED AND HAS ISSUED A PUBLIC STATEMENT IT WILL CONTEST THE VOTE BY LEGAL MEANS TO THE VERY END.
- 6. THE STATEMENT IS REGARDED AS HIGHLY SIGNIFICANT FOR THIS REASON: PRIOR TO THE ELECTIONS, DR. ALESSANDRI REPEATEDLY SAID HE WOULD NOT ACCEPT ELECTION BY CONGRESS IF HE DID NOT RECEIVE A HAJORITY OR PLURALITY IN THE POPULAR VOTE. HE IS ON RECORD AS SAYING CONGRESS SHOULD GIVE THE PRESIDENCY TO WHOMEVER WON THE POPULAR VOTE. THE ALESSANDRI CAMP STATEMENT ON SUNDAY (WHICH THE FAR LEFT QUICKLY TERMED AS 'SEDITIOUS') MEANS THAT DR. ALESSANDRI'S BACKERS ARE BIDDING FOR TIME TO UPSET ALLENDE ONE WAY OR ANOTHER BEFORE OCT. 24.
- 7. IN A VERY CONFIDENTIAL AND PRIVATE SESSION ON SUNDAY AFTERNOON WITH DR. ARTHRO NATIF, ALFSANDEL'S BROTHES-IN-ILE AND MIS CLOSEST ABVISER, I WAS BRIEFED ON THEIR STRATEGY: THEY ARE SOMEHOW EXPECTING THE ELECTORAL TRIBUNAL TO SHOW THAT THE OFFICIAL VOTE RECOUNT FAVORED ALESSANDEI, NOT ALLENDE, AND THAT PRESIDENT FREI WILL SUPPORT THIS DECISION. THE ARMED FORCES, MOST OF WHOSE LEADERS ARE PRO-ALESSANDRI, VOULD BE EXPECTED TO SUPPORT FREI. THE MECHANICS OF JUST HOW THIS WOULD BE ACHIEVED WERE MERELY HINTED AND I INFERRED IT WOULD REQUIRE SOME MONEY AND INFLUENTIAL PRESSURES PERHAPS FROM WASHINGTON.
- 8. DR. MATTE SAID THAT WITH FREI AND THE ARMED FORCES' SUPPORT,
 A LARGER SEGMENT OF THE CHRISTIAN DEMOCRATIC BLOC WOULD BE
 PERSUADED TO VOTE FOR ALESSANDRI. ONCE ELECTED BY COKGRESS,
 DR. ALESSANDRI WOULD GO BACK TO HIS OLD PLEDGE AND RESIGN THE
 PRESIDENCY. THIS WOULD RESULT IN NEW ELECTIONS IN WHICH FREI
 WOULD BE ELEGIBLE FOR ANOTHER PRESIDENTIAL TERM. FREI'S STATURE
 IS SUCH, MOST CHILEANS BELIEVE, HE WOULD DEFEAT ANY OPPOSITION
 CAMPIDATE.

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END OF PART TWO OF THREE PARTS

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- THE ALESSANDHI CAMP IS FULLY AWARE OF THE CONSEQUENCES OF SUCH A MANEUVER A BLOODBATH SINCE THE FAR LEFT EXTREMISTS YOULD NOT TAKE THIS WITHOUT REACTING VIOLENTLY. DR. MATTE, ACKNOWLEDGING THIS, SAID THIS WAS NECESSARY TO PREVENT COMMUNISM FROM TAKING OVER THE COUNTRY.
- 10. THERE ARE IMPORTANT AND INFLUENTIAL PERSONS IN AND OUTSIDE OF CHILEAN POLITICS WHO BELIEVE THIS CAN BE CARRIED OFF. THERE ARE ALSO OTHERS WHO REGARD THE PLAN AS TOO REGIANTIC AND DOOMED TO FAILURE WITH THIS RESULT: THE ORTHODOX MARXIST LEFT, IN TENUCUS CONTROL AT THE HOMENT, WOULD BE OVERWHELMED BY THE VIOLENCE-PRONE EXTREMISTS (CASTROITES, MADIST, ETC.) AND THE LIMITED AREA FOR NEGOTIATION LEFT TO DOOMED U.S. COMPANIES IN CHILE WOULD DISAPPEAR.
- 11. MEANTIME, DR. ALLENDE AND HIS TEAM ARE MOVINGSWIFTLY TO CONSOLIDATE THEIR DELIGATE BEACHMEAD. THEY ARE WORKING MAINLY THROUGH THE MAVERICK PDC RANKS TO COUNTEP ANY MOVES BY FREI. THEIR BASIC PITCH IS CO-EXISTENCE AND PEACE-AS DR. ALLENDE SAID PUBLICLY FRIDAY NIGHT: NO REVENUE, NO REPRISALS, A GOVERNMENT FOR ALL. THIS LAST TRANSLATES INTO GOVERNMENT JOBS FOR THOSE WILLING TO JUMP PARTY LINES. APD IN A NATION WITH SOME 15 TO 20 PERCENT UNEMPLOYMENT, JOBS ARE BECOMING A LUXURY.
 - THE IMMEDIATE RESPONSE:

 12. IN SANTIAGO AND APPARENTLY THROUGHOUT THE COUNTRY, DR. ALLENDE'S VISTORY WAS RECEIVED OUTWARDLY WITH CALM. THE TWO LARGEST COUNTRY CLUBS, LOS LEONES AND PRINCE OF WALES, WERE CROWDED SATURDAY AND SUNDAY. THESE ARE UPPER CLASS CLUBS. NASY OF THOSE THERE SAID THEY'D COME TO FORGET, TO GET THEIR MINDS "GFF THIS TRAGEDY". DOWNTOWN SANTIAGO WAS QUIET EXCEPT FOR CONTINUING VICTORY DEMONSTRATIONS BY ALLENDE SUPPORTERS.
- 13. BY SUNDAY WORD GOT AROUND THAT THE BLACK MARKET VALUE OF THE ESCUDO IN RELATION TO THE DOLLAR HAD DECLINED SHARPLY -FROM 21.5 TO USO I ON THURSDAY TO E 35 TO GI. THE EXPECTATION WAS THAT IT WOULD HIT AT LEAST 50 TO I ON THESDAY.

 System Confidential
- 14. MANY EMPLOYES WHO MAD BACKED ALESSANDKI VERE HIGHLY NERVOUS ABOUT THEIR JOBS AND THE FUTURE. EMMASSY SOURCES SAID THEY EXPECTED VISA REQUESTS TO SOAR ON MONDAY.

THE OUTLOOK FOR U.S. COMPANIES:
15. THE CONSENSUS (IN WHICH U.S. AMBASSADOR KORRY CONCURS) IS THAT CHILTELCO AND WORLDCON HAVE A SURVIVAL PERIOD UNDER ALLENDE OF A MAXIMUM SIX MONTHS AND QUITE POSSIBLY CONSIDERABLY LESS, DEPENDING ON THE IMMEDIATE POLITICAL NEEDS TO KEEP WORKERS AND NATIONALISTS APPEASED.

System Confidential

16. There is also a view that we could use chiltened and worldcom
to regotiate with allende on the two rotels and possibly
standard electric. An informal sounding with sources in the
allende camp verified this, but we have been told to regotiate
directly with him instead of middlemen. In this sense, cun
holmes is considered the best man to regotiate on chiltelco.

17. RELIABLEST SOURCES CAUTION US TO PROCEED SLOVEY, NOT JO PANIC EVEN 12 PRESSURES ARE GIRBNO-IN THE BEGINNING. INOSE VHO OFFER THIS COUNSEL SAY WE CAN EXPECT ALLENDE TO BE MORE FAVORABLE TO FOREIGN COMPANIES (GENUAN, BRITISH AND JAPANESE) THAN TO AMERICAN FIRMS AND TO TRY TO USE THIS AS A LEVERIF POSSIBLE.

THE SUMUP:

1. PRESIDENT SHELL AND THE ARMED FORCES REMAIN THE KEY ELEMENTS,
THE CATALYSTS, IN THIS SITUATION. POLITICALLY, FREI CANNOT
PERMIT HIS PDC TO COLLABORATE TOO CLOSELY WITH ALLEMDE
BECUASE THIS WOULD MERELY STRENGTHEN THE FAR LIFT'S CONTROL.
AT THE SAME TIME, HE COULD NOT ALLOW HIMSELF TO BE IDENTIFIED
WITH COUP TACTICS LEST HIS IMAGE IN LATIN AMERICA AS THE PARAGON
OF LEFTIST DEMOCRACY (AND OF WHICH HE IS VERY PROUD) BE
TARHISHED.

SYSICIS COMMITTEE

2. SINCE HE HAS PROMISED TO RESPECT THE CONSTITUTION (WITH SOME REFORMS), ALLENDE, A SOFT-LINING MARKIST WHO HAS PREACHED AND STUCK BY A NON-VICLENCE SIANCE, IS EXPECTED TO PROCEED CAUTIOUSLY IN IMPLEMENTIAG WHAT HE CALLS HIS "ANTI-IMPERIALIST, ANTI-CAPITALIST, NATIONAL" GOVERNMENT PROGRAM. STRONG OUTSIDE POLITICAL AND ECONOMIC PRESSURES, RESULTING IN UNEMPLOYMENT AND UNNEST INTERNALLY, WILL CERTAINLY STRENGTHEN THE HAND OF THE LEFTWING EXTREMISTS AND CONVERT ALLENDE INTO MERCHY A PUPPET OF A HACHINE DEDICATED TO VIOLENT ANTI-U.S. REVOLUTION ON A HEMISPHERE SCALE.

3. THE VIEW HERE IS THAT WE SHOULD NOT PUT TOO MUCH FAITH IN FREI OR THE CHILEAN ARMY TO BAIL CHILE OUT OF ITS PROCLEY.
ALTHOUGH HE IS HIGLY REGARDED AS A MAN OF COURAGE AND INTEGRITY INTIMATES SEE FREI AS A "PHYSICAL AND NORAL COWARD. TVACILLA-

TING, WEAK IN THE CLUTCH". HIS EFFECTIVE CONTROL OF HIS OWN "PARTY IS QUESTIONABLE. System Confidential

4. IT IS SUGGESTED THAT CONTINGENCY PLANS BE BASED LARGELY ON THE PREMISE THAT AMERICAN COMPANIES WILL HAVE TO GIVE IT UP EVENTUALLY, THAT EVERY ADVANTAGE MUST BE TAKEN OF THE NARROUROM LEFT FOR DEGOTIATION BETVEEN NOW AND THE FIRST TWO MONTHS OF ALLENDE'S TERM.

REGARDS.

BERRELLEZ.

ORIGINAL TO

MR HENDRIX
MR GERRITY
MR WALLACE
MR PERKINS
MR DUNNETT

System Confidential

(2) LATIN AUERICA UFG.

AIDEL Bennett	D'INLEA MIRTAL		RUNYON KNORTZ	MC CADE	SCHAFFE! WEADOCK
COOKSON	G ENEE	YAWMAY	KELLEB, J.H.	PERRY	
ANS	PACII	DRITTERHAN	FAIRFIELD GU	ILLOAITE	MATHAI
DAI	IHES	CROSUY	FLAKS HO	DCSON	HOSSBERG

System Continuence

will

353

GUILFOYLE INTELCO NYK

FLUG RECEIVED IN CRYPTO RECEIVED 12:00/H EST/HB ITT COMMUNICATIONS 353/P

TOI FROM: HOLMES CHILTELCO SANTIAGO

RECEVO SEPT 8 1970 DATE: SEPTEMBER 7, 1970

COPY STIMSON INTELCO MYK

SYSTEM GONFIDERTIAL

Z/159 IN ACCORDANCE WITH OUR TELEPHONE COUNTESATION OF THIS.
MORNING, I AM FORMADING SUMMARY OF OUR DISCUSSIONS WITH
ME FRIESTO BACROS AND MY PERSONAL OPINION.

I BELIEVE THE COMPANY MUST CONTINUE RESMALLY WITH ITS
ACTIVITIES AND DEVELOPMENT OF THE EXPANSION PLAN DURING THE
REXT ID OR NO DAYS AVAITING EVENTS.

THIS MEANS THAT WE WILL PURCHASE A LOT OF GROUND IN
CONCEPCION FOR ESCHOOS ASP, ADD (APPROXIMATELY DOLLARS 26,000)
AND DURING THE HOARD MEETING OF WEDNESDAY SEPTEMBER 9 WE
WILL INCREASE CAPITAL ACCORDING TO CONCLUSIONS INSUED BY THE
SUPERINTENDENCY OF STOCK CORPORATIONS AND WILL DISTRIBUTE
A PROVISIONAL DIVIDEND AS ALREADY FORESIEN.

TODAY THERE WAS SEVERE WITHDRAWING OF CASE FROM THE BANKS, —
PARTICULARLY AT THE BANK OF CHILE AND BANCO ENVARDS AND
READURTHUM DURING OF THE CENTRAL BANK. RECKERS MARKETS
REMAINED CLUBED.

REMAINED CLUDED.
WILL KEEP YOU INFORMED OF DEVELOPMENTS:
UP TO THIS MOMENT THERE IS SUSPENSE AS TO WHAT COMPRESS
IN FULL WILL DECIDE, BEIND ESTIMATED THAT CHRISTIAN DEMOCKACY
WILL VOTE FOR ALLIENDE AND HOT FOR ALESSANDRI. HOLKES

ORIGINAL TO MR GUILFCYLE COPIES TO MR STIMSON

· (3) LATIN AMERICAL TEL,

ATREL	DUCTRAVY	GEFRITY .	BANAU4	HC CARE	SCHAFFER
Partie L	HOTALAH	1000 all 1000		ec M.B.L	WWDO #
COSSISON	Center	YAKKAI	Keller, J.H.	YSKRY	

BRITTENING CHRISTS

CHLLFOYI T KOL GENYES HC EITT SCHEEN STOLLE PIERSON THE CHRISTIAN DEMOCRATIC PARTY ANNOUNCED TODAY A NATIONAL ASSAMBLY WITHIN 30 DAYS TO DECIDE WHICH CAMBIDATE THEY WILL SUPPORT IN THE CONGRESSIONAL DECISION TO MOMENATE CHILE'S FORTH-COMING PRESIDENT. PREVIOUS TO THIS DECISION THE CDS WANT TO KNOW EXACTLY WHAT PLANS HR. ALLERDE HAS CONCERNING COLLEGE'S AUTHOROMY, INDEPENDENCE OF THE ARMED FORCES FROM ALL POLITICAL ACTION AND INFLUENCE, LIBERTY OF PRESS AND THE GUARANTEED EXISTANCE OF ELECTIONS TO GENERATE AUTHORITIES AND POWER. OBVIOUSLY THIS IS A MEANINGLESS POLITICAL MOVE, SINCE IT IS EXPECTED THE POPULAR FRONT WILL ACCEPT ANY DEMANDS OF THIS KIND ON PAPER. PREVIOUS TO OCCOBER 24. ON PAPER, PREVIOUS TO OCTOBER 24.

MEANWHILE THE COUNTRY CONTINUES TO FACE ECONOMIC STRESS DUE TO CAPITAL DRAIN CAUSED BY PANIC. MINISTER OF FINANCE ANDRES SALDIVAR RECOGNIZED HEAVY DRAWING ON THE COMMERCIAL BHAKE, A DECREASE OF 50 TO 60 PERCENT IN THE STOCK EXCHANGE MARKET AND THAT A CURRENCY EMISSION IS UNDERWAY TO HELP SOLVE THE SITUATION

FOR THE MOMENT.

CHILTELEO'S STOCKS WERE GUOTED TODAY AT ESCUDOS 0,63,
THE SAME PRICE AS LAST WEEK'S. THE TOTAL NOVEWENT OF THE STOCK.
EXCHANGE MARKET IN A HORMAL DAY REACHED TO 1.000 HILLION
ESCUDOS. THE FIGURE FOR LAST THURSDAY ALMOST DOUBLED.

THE RIGHT OF AND INDEPENDENT MOVEMENT EACHING ALESSANDRI HAS OFFICIALLY DECLARED THAT THE ABSTENTION FIGURE (16 0/0) THE HIGHEST IN THE LAST 30 YEARS, IS TOO HIGH TO BE REAL AND THAT SOMEHOW THEY EXPECT THE STEPS OF THE ELECTIONARY PROCESS TO ACCEPT OF REJECT THE RESULTS. THE STEPS BEING!

Bystem Confidential

A) SEPT 14 (HIDNIGHT) DEADLINE TO SUBMIT COMPLAINTS ON ANNULLED OR HISSCOUNTED VOTES.

OR HISSCOUNTED VOTES.

B) OCT A (AT 14.00 HES) THE ELECTIONARY TRIAL TO DECIDE ON VALIDTY OF QUESTIONED VOTES OPENS SESSIONS.

C) OCT 23 DEADLINE FOR THE ELECTIONARY TRIAL TO GIVE ITS VEREDICT WITH THE FINAL RESULTS OF THE POLLS.

D) OCT 24 CONGRESS MEETS. THEY HAVE THE POWER TO DECIDE ON ANY OF THE TWO HIGHEST PLURALITIES. THIS FAR THE ODDS SEEN HIGHLY IN FAVOUR OF ALLEHDE.

MEANWHILE THERE IS OBVIOUS PANIC AMONG SOME INTELLECTUAL AND BUSINESS SECTORS OF THE POPULATION. AS A SIGN OF THIS, DOLLARS WHICH WERE QUOTED IN THE CLACK MARKET AT 21 ESCUDOS THE RUMONS ARE THAT THEIR PRICE HAS INCREASED ABOUT 70 0/0.

HOLMES

ORIGINAL TO MR GUILFOYIE TO PER STIRSON COPIES

(3) LATIN AMERICAL TEL.

AIBEL BENNETT COOKSON	DUNLEAVY HURTAUCH GENEEN	HAMILTON I	CVYON CHORTZ KELLER, J.H.	HC CABR HC NEILL PERKY	SCHAFFER WEADUCK
	BRITTENIAN CROSSY BARRIES	GUILFOYLE KOLLNEYER	HC NITT STIMSON	STOLLE PIERSON	

10: Mr. Gerrity FROM: W.R. Merriam As requested:

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036

DAVE: September 8, 1970

for Mr. W. R. Merriam

FROM: J. D. Neal

SUBJECT: Chile -- Allende Election Victory

I spoke with the State Department this morning regarding the Dr. Salvador Allende narrow victory in Friday's Chilean election.

Since the American Embassy for the past four months has been reporting that Santiago sources showed the three candidates running extremely close, and no one was predicting an out-front leader, the narrow margin victory of Allendo, (1.4% of nearly three million votes) was not a total surprise, and confirmed the necessity for cautious forecasts.

The official tally is as follows:

Allende - 36.3% Alessandri - 34.9% Tomic - 27.8%

The State Department said it had been hopeful Tomic would capture more of Allende's supporters. However, had Alessandri won by the same narrow margin as Allende did, his position in a congressional settlement still would have been precarious. Alessandri has only some 40 odd votes in Congress. Allende has about 80 and Tomic approximately 75.

Early rumors have Tomic and his Christian Democrats throwing their Congressional support to Allende. However, as the State Department said this morning, it is too soon to be predicting what will happen in Chile during the next six weeks. The run-off vote in Congress is set for October 24.

The Chilean Army is sufficiently powerful to step in and take over, but as the State Department pointed out, there is no indication this will happen. Previous leaders of army coups are gone; so take-over action with a new to the present group. With Chile as divided as it was on

The State Department noted Fidel Castro's gloating over the Allende victory. No doubt he will use this for further propaganda activities.

The Embassy in Santiago reports Chile quiet early today.

September 10, 1970

MEMORANDUM TO:

1,

Mr. E. J. Gerrity

SUBJECT:

CHILE

Miles Cortez, IBM International, called me today to advise that yesterday they had been called by Gregorio, political adviser and Executive Assistant to President Frei, that Alessandri would announce that he would resign if Congress appointed him, which would leave the way open for new elections. (This was confirmed in the New York Times this morning and was proviously reported last weekend by Bob Ferrellez.) In effect Gregorio was telling IBM that the deal between the Christian Democrats and the Alessandri crowd was being thrashed out and in his opinion had a 50-50 chance of success. His basis for optimism was that their considered opinion is that the block of 80 votes that Allende has is not solid and some could waiver to the Christian Democrat/Alessandri coalition and this in turn would offset some of the defectors from the Christian Democrats.

co: Mr. H. S. Geneen

Mr. R. E. Bennett

Mr. F. J. Dunleavy

Mr. H. J. Albel

J. W. Gullfoyle

PERSONAL AND CONTIDENCIAL

September 10, 1970

MEMORANDUM TO: Mr

Mr. E. J. Gerrity

SUBIECT:

CHILE

Ned:

Can we have either Hal Hendrix or Bob Berrellez try to get us their best estimate of what the breakdown will be of the various blocks of votes within the Congressional group?

As I indicated in my earlier memorandum today, the IBM crowd's information is that the Allende block is not solid and it has been reported that the Christian Democrats will probably split. This might give us some kind of a feel of how the coelition would be fermed and the chances of the Alessandri/Frei success.

W. Guilfoyle

Translated by ITT Translation Division September 19, 1970

SC-16

CCH CHE ... (131 L)

CASSALLOSA

BY HOW WHIDE

EMINITION CHILE, STPT 10 (UPI)THE SCOTALIST, PALVADOR MILEMDE - VIHER OF
LAST FRIUMY'S PRESIDENTIAL ELECTION - APPEALED TO THE COUNTRY OVER THE
MATICH-TIDE PADIC NATHORN PLEADING FOR CALM IN THE MACE OF THE PREMICIAL
MAVE OF FEAR * EMPLOYING THE MATION, WHILE THE DEFEATED RIGHTIST CANDIDATE,
JORGE MAYSANERI, ANNOUNCED THAT HE-MOULD NOT ACCEPT THE PRESIDENCY IP
MARCETED BY THE CONGRESS.

THE COMPLETE IS TO RECOVERE IN FULL SESSION ON COTORS RUTE TO SELECT TO THE VISIDENCY OF THE REPUBLIC CIE OF THE TWO CAMBIDATES THAT CARE OUT ON TOP IN THE PAINTRIES OF SENTINEER LITH.

PLISHDE DEFFITED PLYSSANTRE BY A HARGIN OF 1.4 PER CENT, CRIPOUT 39,000 VOTES.

TO OBTAIN AN ASSOCIATE PAJORITY, SI PER CENT OF THE BALLOTS CAST WOULD BE PERSAFFY.

REFERRING TO POSSIBLE MOONCHIC CHACS, ALLENDE SAID, IN LAST MIGHT'S PADIO ADDRESS,

THAT THESE WAS NO SUBSTANCE TO SUCH FEAR, THAT THE PLEDATION WAS ONLY A TACTIC

USED BY THOSE WAS TISHED TO MEDATE HIS PLECTION TRIMPH.

HE WARNED THAT THE "CAMPAION OF FEAR, NEWLY LAUNCHED, "WOULD NOT FIG" THERE IN SURE OF COLD, IN FUTURE, "FIND NEW MEANS OF SABOTAGE, WOULD HOLD UP THE DEFINITION THREAT OF ECHAPIES BEING SUSPENDED, AND OTHER CONTINUENTS BEING BROKEN, AND EVEN WORSE THINGS TO COME."

DITER ON HE SAID THAT THE "ATTOULIZATION OF THE BANKING SYSTEM WOULD NOT BY ANY MEANS CICHIST THE CONJECUTION OF DEPOSITS AND TO CLAIM OTHERWISE WAS CILLY A MAY OF CHAPTERS OF THOSE WHO HAD NO OTH R HEARS BUT THEIR SAVINGS.

ALLINES PROMESED RECED TO THE TRUE THAT THE PROTECT OF CHICAGO PROJECT OF CHICAGO WITH AT THE PROTECT PERMESEY PERMESENT HIGHT, CALLING IT A COMPOUNT ACT CAPABLE OF BY DESPREATE PROTECTIONS. THE PROJECT WAS WORKED BY A PROJECT IN HIS RIGHT THICH.

REFERRICE TO THE ARICHD FORCES, ALLERDE SAID THAT HE HAD CONFIDENCE IN THEIR PROCEDED IN UNIFORM PROCEDED AND THEY CONSTITUTED "THE PROPE IN UNIFORM" AND THAT THEY KNOW "HIS UNCONCOURSED FAITH IN THE FUTURE OF CHILL."

THE RIGHTISTS HAVE BEEN TRYING TO PROSUMDE THE CHRISTIAN DESCRIPTS - MED WAKE UP THE PARTY THAT HOLDS THE COUNTRY'S POLITICAL MAJORITY - WITH 75 SHATS IN THE CONGRESS - TO SUPPLYET ALESSANDRI IN THE CONGRESS ON COTOBER 2017, BUT AS OF THIS TIME THEY HAVE NOT BEEN SUCCESSFUL.

IF ALESTANDED VERSE SLECTED PRESIDENT BY THE PARLIAMENTARY SCOY AND IF - AS HE ANNOTHERD - MERE BY DECLINE THE STOP, THERE WOULD HAVE BY SELECTION FOR THICK HE WOULD HAVE BY SAFT WHATEVER.

THE PARTIES OF THE RIGHT THINK THE REPUSAL BY ALESSANDRI OF THE CHESTOTROY IF FLECTED BY THE COMPRESS WOULD OPEN AN OPPORTUNITY FOR THE CUPREST PRESIDENT, EDUARDO FREI, TO BE PRESENTED AS A CAMDIDATE.

PREI CAMMET BE RE-MISCIED, BUT COULD RUN AS A CAMBIDATE OF AN INTERIM PRESIDENT WERE TO CALL MEN ELECTIONS.

SOME SPONISHEN FOR THE CHRISTIAN DENOCRATIC BORTY HAVE STATED THAT BOTH FREI AS WELL AS THE BORTY FLATLY REJECT SUCH AN ALTERNATIVE.

IT IS THOUGHT HERE THAT I'S CHRISTIAN DESCRIPTS WILL SUPPORT SALVADOR AT LENDS
IN CONCRESS ON COTOBER SHITH, THEREBY ENSURING AND CONFIRMING THE LATTER'S
VICTORY.

HJ/hl

September 10, 1979

E. J. Gerrity .

J. P. Fitzpatrick

Chlle

I talked with Frank McCarthy of UPI, and he gave me the gist of Allende's speech lest night as follows:

Allende asked for tranquility at this time, and he depleted the wave of financial terror which threatens the country. He said this terror could lead to possible economic chaos. He blamed it on those seeking to ignore his victory. Those men will seek other means of terror, he said, and will suppend wages and layoff whekens. Alluding to possible encomprision of banks, he said such action does not meen that the deposite themselves will be taken by the state. He said he has full confidence in the armed forces, knows of their legalty to their country, and knows they will act accordingly.

I have sent correcte for a copy of the story, and, since it is in Spanish, I will have a fact translation made and send it up.

I also spoke to Tom Holt of the AP cable deak, and although they have had an advisory that he was to speak on the national radio "to calm the people in view of a financial crisis," they, as yet, have received no story.

JPF:mc

ec: E. R. Wallace K. M. Perkins E. Dunnett

INTERNATIONAL TELEPHONE AND TELEGRAPH CURPURATION

INTERNATIONAL HEADQUARTERS .

TO.

II. S. Geneen

DATE. September 10, 1970

58014

E. J. Gerrity

MOLEN REPLYING, PLEASE QUOTE FILE

...

Chilean Situation

ment reaction.

1. Attached is a copy of Ernie Wiener's telex on reaction in Brazilian Government and business circles to the Chilean election. It indicates, as we have reported, that the result in Chile is drawing Brazil close to Argentina. Wiener, of course, is unaware of the Peruvian Govern-

The New York Times reports today the first move in Chile toward the plan that Ambassador Korry strongly believes is possible of doing, that Is, of making Alessandri president with the intention that he resign so new elections may take place, is underway. At the moment we believe chances of that succeeding are minimal.

2. Our poll of companies with plants, or activities in Chile continues to show an almost complete lack of interest on their parts. In Washington the Monsanto and RCA reps told Bill Merriam they were unaware of any, concern by their managements. Bill asked them to go back and check.

Our polling here and in Washington will continue.

cc: R.E. Bennett

F.J. Dunleavy

H.J. Albel

R.L. Brittenham

W.R. Merriam

E.R. Wallace

System Confidential

FROM ERNEST G. WIENER - MICROPHONE RIO 'DATE SEPT 9, 1970

RECEIVED; G:10PH FS ITT COMMUNICATIONS 507-P

E. DUNNETT, E. GERRITY, J. GUILFOYLE, R. MARSHALL, K. R. TAUDE, N. THEOFEL, E. VALLACE, J. MCDONALD ITTHONY R. BERRELLEZ ITTLADA - F. WALSH MICHOPHONE RIO PERKIUS

EC-1398

SYSTEM CONFIDENTIAL

·SUBJECT: REACTION TO CHILEAN ELECTIONS

1. GENERAL REACTION HERE HAS BEEN ONE OF SURPRISE, APPRENHENSION AND HOSTILITY.

2. SAMPLE EDITORIAL IN JOHNAL DO BRASIL ENTITLED
"ELECTORAL EARTHQUAKE" SPEAKS OF A SENSE OF CATASTROFE IN VIEW
OF EXCHANGE OF CORDIAL MESSAGES BETWEEN ALLENDE, FIDEL CASTRO AND
SOVIET UNION. IT ALSO POINTS OUT DANGERS OF CONCILIATORY POLICIES
WHICH TRY TO FIND ACCOMODATIONS BY "THIRD SOLUTIONS" TO MODERN IDEOLOGICAL PROBLEMS.

FURTHER IT BLAMES THE LATIN AMERICAN CHRISTIAN DEMOCRATIC MOVEMENT FOR ITS LETTIST RADICALISM WHICH IT CONSIDERS STRONGER.

THAN THAT OF THE COMMUNISTS. THE EDITORIAL CALLS FOR A REVIEW
OF THE CONTINENTAL POLICIES IN THE LIGHT OF THE CHILEAN DEVELOPMENT.

S. OTHER REACTIONS HERE CAN DE SUMMED UP AS FOLLOWS:

THE EVENTS IN CHILE ARE REINFORCING THE FEELING HERE ESPECIALLY

AMONG THE MILITARY THAT THE COURSE THEY HAVE DECIDED UPON FOR

BEAZIL IS THE MIGHT ONE AND THAT THE PRESENT SYSTEM IS BEST SUITED

FOR THE LOCAL CONDITIONS. ANOTHER STRONG FEELING WHICH SEENS HEED FOR CLOSER HEMISPHERIC COOPERATION, ESPECIALLY

PEOPLE HERE EXPECT ANY DIRECT INTERVENTION FROM THERE EITHER.

REGARDS

WIENER

ORIGINAL TO MR HENDRIX COPY TO MR DUNNETT

System Confidential

MR GUILFOYLE THIS COPY FOR HR MARSHALL

MP PERKINS HR TAUBE MR THEOFEL HR WALLACE

. HR MCDONALD C/O MR THEOFEL

LATIN AMERICA MFG.

MC CABE RUNYON GERRITY AIBEL DUNLEAVY KNORTZ . MC NEILL HAMILTON MURTAUGH BENNETT HANWAY KELLER, J.H. PFRSY GENEEN COOKSON

> ANSPACH BARNES

ARITTENHAU CROSBY KLEWHAMMER

FAIRFIELD FLAKS PIERSON

GUILTOYLE MODGSON M INNAMAN KOLLHEYER

MOSSBERG THEOFEL SPARKS

SCHAFFER

WEADOCK

THIS IS 3520035 CRUITEL INTELCO NEUYORK 420769

GUILFOYLE INTELCO NYK FROM: HOLHES CHILTELCO SANTIAGO

DATE: SEPTEMBER 10, 1970

COPY STIMSON INTELCO NYK

SYSTEM CONFIDENTIAL

Z/166

RECUIVED IN CRYPTEL(RECEIVED 8:00111 EDT/ID ITT COMMUNICATIONS 602/P

'>

FURTHER TO MY TELEX Z/165 YESTERDAY.

IN A DRIEF COMUNIQUE SALVADOR ALLENDE LAST MIGHT ACCUSSED
THE RIGHT VINCERS AND FOREIGN MONOPOLIES OF CAUSING "AN
ATMOSPHERS OF ECONOMIC AND POLITICAL TERROR". HE SAID PRESSURS
ON THE DAMKS HAD DIMINISHED. VITHERAVAL OF MONEY HAS DOMN TO
MORNAL, ACCORDING TO MIH. HE ADDED THE FOPPLIAR FROOT SHOULD
EXPECT FURTHER ACTION FROM MONOPOLIES, SUCH AS: DELAY IN SALARY
PAYMENTS, HASSIVE FIRIES AND THE FOLDING UP OF SOME PROJECTS
AND CHEMITICIS IN THE COUNTRY.
SAIVADOR ALLEDS SAID BARK DEFOSITS OF PRIVATE INDIVIDUALS

SALVADOR ALLENDE SAID BARK DEFOSITS OF PRIVATE INDIVIDUALS WOULD NOT BE TOUCHED. HE SAID "FEOPLE WHO OWNED A HOUSE, A CAR AND SOME SAVIKES WAD KOTHIFS TO FEAR!". HE DID NOT REFER TO THE CASE OF LARGE CORPORATIONS ESPECIFICALLY.

CONTINUES WITH THE SERIES OF COMMINGUES TONIGHT, AT 21.00 HOURS THE CHAIRMAN OF THE MATIONAL BOARD OF THE CHRISTIAN DEHOCRATIC PARTY, SEMANUM PRADO, WILL MAKE A SPEECH "TO CLASSY THE POLITICAL VIEWS OF HIS PARTY IN RELATIONS TO RECENT everts ' '

ALSO TODAY SOME UNITED POPULAR FRONT HIGH RANKING OFFICIALS CELEBRATED A HEETING WITH ENTEL UNIONS TO DISCUSS COMMUNICATIONS.
THEY SAID "CORFO YOULD BECOME AN IMPORTANT ORGANIZATION IN THE
FIELD OF ECONOMIC FOLICIES OF THE COMING ADMINISTRATION REPRESENTING
ITS CURRENT OPERATIONS OF THOSE OF NATIONALIZED CORFORATIONS IN
THE FIELDS OF INDUSTRY AND COMMUNICATIONS".

"THESE COMPORATIONS WOULD NOT BECOME STATEDOWNED. CORFO WOULD

RUM THEM FOR THE STATE WHICH IS DIFFERENT."

THEY SAID ENTEL EMPLOYEES VOULD KEEP THE SAME SOCIAL SECURITYSYSTEM AS THEY HOLD HOW. THEY DID NOT TOUCH THE SITUATION OF THE
CHILTELCO'S EMPLOYEES. THEY DID NOT TOUCH THE SITUATION OF THE

ORIGINAL TO MR GUILFOYLE COPIES TO MR STIMSON

(3) LATIN AMERICAT TEL.

A I BET. BENNETT COOKSON DUNILLARY HURTAUCII GEREEN

GERRITY. **WHILTON** HANKAY

RUNYON KIRORTZ KETLER, J.H.

HC CARE HC KEILL PEDRY

SCHAFFER WEADOW.

BRAYLERIAL CROSBY EARNES

GLAFOYER KOLLNEYER

iiC iiIi. STIRSON

SCOLLE PIERSON

	ITT COMMUNICATIONS OUTGOING	HESSAGE BLANK	
PRICRITY: SURSENT REGULAP OWNGE TO: Corporate Greenent	SECRITY: (ITT POLICY ER 2.4/1) SYSTEM CONFIDENTIAL - COOED PERSONAL AND CONFIDENTIAL - C UNCLASSIFIED - NOT COOED ORIGINATOR'S SIGNATURE Relations DATE Sept. 14, 1970	0000	Originator EUGY cosplete sections on left, otherwise message will be returned to originator Send original to Communications - Sth F1.
(RYA)EA	MESSAGE TEXT SHOULD BE TYPED OR USE PLAT	ILY LEGIBLE MARRY	RITING.
TO: MR. R. BERRE		COPIES TO: GENEEN, E	UNLEAVY, R. BENNETT
ITT LA (comm) BAbres (section)		WALLACE MERRIAM,	YLE, THEOFEL, DUNNET - ITT HDOTRS NEAL - WASHINGTON, D Y, P. JONES - ITTLA, B
g garant	THANKS AND ADMIRATION F	HAVE ASKEI	ME TO EXPRESS OUR
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.*	TOP ASSIGNMENT. ALSO DE		
NOT	PEPOPITS YOU AND HENDRIN BEST REGARDS.	MADE OVER	PAST FEW DAYS.
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Hore is our report on the Chilean Stuation and what we have accomplished over the weekend.

SHINGTON DIFFICE LISTREET, N.W. IGTON, D. G. 20038

W.R. Morriam

To:

Mr. W. R. Merriam

DATE: Sentember 16 197/

TROM:

J. D. Neal

cer: Chile - White House; State Department; Attorney General.

After you read me Mr. Geneen's suggestions about Chile on Friday, September II. I took the following action over the weekend:

White House - Kissinger's Office

Late Friday afternoon I telephoned Mr. Kissinger's office and talked with "Pete" Yaky, who is the State Department's Latin American advisor to Kissinger.

I told him of Mr. Geneen's deep concern about the Chile situation, not only from the standpoint of our heavy investment, but also because of the threat to the entire Hemisphere. I explained that \$75 million of our holdings are covered by investment guarantees, as are those of other American corporations, but that we are reluctant to see the American taxpayers cover such losses.

I told Mr. Vaky we are aware of Ambassador Corry's position we Alessandri being certified and then resigning in order for Frei to run again. Also, we have heard rumors of moves by the Chilean military.

Mr. Valy said there has been "lots of thinking" about the Chile situation and that it is a "real tough one" for the U.S. I admitted we understand the difficulty of the U.S. position but we hope the White House State, etc., will take a neutral position, or not discourage, in the event Chile or others attempt to save the situation.

I told Mr. Vaky to tell Mr. Kissinger Mr. Geneen is willing to come to Washington to discuss ITT's interest and that we are prepared to assist financially in sums up to seven figures. I said Mr. Geneen's concern is not one of "after the barn door has been locked," but that along we have feared the Allende victory and have been trying unsuccessful

PERSONAL & CONFIDENTIAL

PERSONAL & CONFIDENTIAL

to get other American companies aroused over the fate of their investments, and join us in pre-election efforts.

Mr. Vaky said to thank Mr. Concen for his interest and that he would pass all of this on to Mr. Kissinger. He offered to keep us informed.

State Department - Asst. Secretary Mayer

Early Saturday morning I telephoned Assistant Secretary of State for Latin American Affairs, Charles (Chuck) A. Moyer, at his office. I repeated to him the same run-down I gave "Pete" Vaky.

"Chuck" said he could understand Mr. Geneen's concern and appreciated his offer to assist. He said State is watching the situation as closely as possible and awaiting the October 24 date when the Chilean Congress decides the winner.

He said the Chileans themselves are becoming quite concerned; even the labor unions see a disadvantage in Allende. He said "this is a Chile problem" and they have done a good job in "screwing-up their own dessert."

He said the head of Kennecott Copper has been in to report he seels they have lost their big mining area "El Teniente,"

Meyer said he would keep me informed and trusts we will advise his office of pertinent news.

Attorney General

I went to a wedding reception at the Korean Embassy late Saturday. I was in hopes of finding Secretary Rogers and especially Under Secretary of State U. Alexis Johnson who is a close friend of the Ambassador's, but they did not attend. Mrs. Rogers was there; so we chatted with her.

I ran into Attorney General Mitchell; so decided to mention Chile just in case the subject reached him in a cabinet meeting or otherwise.

'Mr. Mitchell mentioned Mr. Geneen's recent visit with him. He said he could understand Mr. Geneen's concern over ITT's Chile investment. I told him I had already spoken to the White House and State Department.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION (ESPAÑA), S.A.

AVOA. GENERALISMO, 57

MAGRID-10

ENRIQUE DE LA PEDRAJA

September 14, 1970

PERSONAL AND CONFIDENTIAL

To: Mr. E. G. Chaves

Dear Lee,

I met yesterday with a Chilean friend,

f I was introduced to him some years ago, before joining the U.S. bank,

- He has

process which so far gives Salvador Allende the first majority to become Chile's next President, if he is elected by Congress on October 24th, since he did not

Our friend has described the situation in Child as very delicate and dangerous and he believes that unless Allende is stopped, no matter what promises he make Chile can become the second communist-dominated country in Latin America. I have personally explained this to you in more detail and have also discussed the

have personally explained this to you in more detail and have also discussed the matter with 7 who coincides with the information I have and also think that the situation can become very serious.

I confirm my recommendations with respect to keeping a close watch on the copporate reaction, and also to take the necessary and possible steps to protect our business with Chile and, of course, ITT general interests in that country.

Despite the fact that ITT Headquarters will be closely following the situation, I consider my friend's appraisal very important because he is extremely well liais in Chile.

I have advised SESA and Citesa Managements of the situation, and discussed in detail my opinion with respect to the possible effects on the coppor market.

cc: Messrs.F. J. Dunleavy

E. J. Gerrity

J. V. Lestor

I. D. Barker

EP/at.

E. do la Podraja

September 16, 1970

MEMORANDUM TO:

Mr. H. S. Geneen.

Mr. R. E. Bennett

Mr. F. J. Dunleavy

Mr. E. I. Gerrity

SUBJECT:

John Ryan of the Washington Office and I had dinner and a lengthy discussion regarding the current Chilean situation last night.

In summary, it was his opinion that the Christian Democrat Party will negotiate some compromise position with Allende and cast the majority of their votes for him on October 24 when Congress convenes to elect the president. Concessions that they will attempt to achieve will be continuation of the Constitution with continuing Christian Democrat participation in a "coalition" type government. Whether this is wishful thinking or not it is difficult to say, but was quite sure of this. He felt that there was no chance for the approach of having Alessandri resign and hence Frei run against Allendo in a new election. His reasons were:

- The Allende group was too strong -- that they have a block of 80 with only 20 to 21 required for a majority, and
- 2. That the Christian Democrat Party would not be united and would split with some backing Allende.

He advised that there had been to his knowledge some conversation of the Christian Democrats and/or the Alessandri group boycotting the assembly of Congress on October 24, but this would have little or no effect as constitutionally it would adjourn Congress for 24 hours before reconvening and then a simple majority of the representatives present could elect a president.

It was his considered opinion that the military would not act in the near future against the Allende government so long as they recognized the Chilean Constitution. He was not sure as to what actions the military might take one or two years hence—if Allende began on his full Marxist program as he discussed during electioneering.

- 2 -

From a personal point of view he made two significant comments:

 That the outcome of the election disturbed him, but he was putting it out of his mind and consciousness until he.

returned to Chile.

He indicated that he knew many Allende supporters and on his return he would sit down with them and determine his his personal future.

We discussed at some length the Allende proposal on a basic communications program (which I have distributed separately).

was quite concerned with the approach and the attacks on both Chiltelco and ITT Com and on his organization.

His concerns were both with the inaccuracy and the very Leftist approach and of his own personal future. He stressed to me that Chiltelco at this time would be under criticism as a result of the relatively poor service being given during the election period and the criticism we have been under as a result of the ITT World Directories contract. This has come up at several Board Meetings. In regard to service he is aware of the technical problems that we have had in the introduction of the 1000B1 from Durope into the Santiago network. I briefed him fully as to the program we were undertaking and the intense action to fully modify the equipment along with our current expansion for the 1970 year.

He indicated great interest in talking with Benny Holmes on Benny's arrival in New York next week.

oc: Messrs. Albel, Hanway, Perry, Stimson

J. W. Guilloyle

COMPAÑIA DE TELEFONOS DE CHILE CORRED CLITARA - "CASULA 16-D BANTIAGO - 1

B. W. HOLMES

BY AIR MAIL
VIA AEREA

SEP 15 1970

To:

Mr. J.W. Guilfoyle

September 10, 1970.

From

B.W. Holmes

I am attaching hereto translation into English of the Basic Communications Program prepared by the Popular Unity Committee existing in Empresa Nacional de Telecomunicacionos (Entel-Chile), which, as I understand, has served as a basis for the speeches and statements of Mr. Allende as Presidential Candidate.

I am briefly stating hereunder the most important references contained in that program in relation with Compania de Telúlonos de Chile.

- a) Total restructuring of the communications area including the Direction of Pust and Telegraph, Companie de Teléfonos de Chile, Entel-Chile, Super-introdency of Electrical Services and other similar companies (page 1, second and last paragraphs).
- b) Criticizes most severely the telecommunications systems due to the ineptitude of the bourgeosic and the people who direct them, particularly the system of Compassa do Telésonos de Chile, with respect to which is indicated that its service is insufficient and of poor quality.

Poor distribution of services, due to the fact that the majority of the works and countryment areas lack telephones, which is a consequence of the arbitrary management on the Company's part, of the investments it nakes, and the high cost of installations and monthly rents (page 2, paragraph 3 and first part of page 3).

- c) Strongly criticizes ITT and its subsidiaries, ITTCOM and CSESAC, as well as the come assion contract of January 23, 1930; the expansion convenio of January 15, 1958; the memorandum of agreement of February 6, 1965; and the convenio of October 0, 1967 based on the mentioned memorandum of agreement (pages 4, 5 and 6).
- d) Lack of fair equivalence in payment of Corfo contributions (page 7, seco paragraph).
- e) Conceatment of profits on the ρ -t of Conquestions Telefones de Chite (page 9).
- .f) Surreptitious operations on the part of 177's subsidiaries in Chile (page three first paragraphs).

- 2 -

- g) Immediate nationalization of CTC and ITTCOM, prior an exhaustive investigation to be carried out by an Intervention Commission to be appointed in this respect (page 11, last part).
- h) Immediate participation of workmen in the Companies Board of Directors (page 12, paragraph 1).
- i) Even before nationalization, the Company will be forced to provide with telephone service the population centers and other parts of the country (page 12, paragraph 2).

cc. Mr. Stimson

September 16, 1970

MEMORANDUM TO

Mr. H. S. Geneen

Mr. R. E. Bennett

Mr. F. J. Dunleavy Mr. E. J. Gerrity

SUBIECT:

CHILE - ALLENDE/ENTEL'S POPULAR UNIT COMMITTEE'S
BASIC COMMUNICATIONS PROGRAM

Attached for your information is the Basic Communications Program prepared for Allende by a group within Entel defining their thoughts and plans following the election.

Also attached is a brief report as to the important issues per Benny Holmes' review.

In reading this document it is significant the emphasis placed on Chilteico by tying in the other ITT entities—ITT Com and CSENC. It is also a very definite Marxist document. Several of the quoted facts and figures are being checked out as to their accuracy. On page 7 the significant comment is that they estimate CORFO's ownership should be 28 per cent, while, in fact, it is only 3 per cent. At the September Board Meeting the capitalization of Chiltelco was increased to provide for the shares due CORFO as a result of the 1969 programmed investment. This increased CORFO's share to just over 12 per cent from the figure of 3 per cent.

cc: Messrs. Aibel, Hanway, Perry, Stimson

Guilfoyle

E. J. Gerrity :

Soptember 18, 1970

J. P. Pitzpatrick

Per your note, Joe I'm is working with I'd Dennett to devolop a Chile Vilto Paper similar to the one we proposed on Cuba.

We are siming to have a draft ready at least two weeks in advance of the October ?4 Congressional accident to elect a new president.

JPW:n c

cc: E. R. Vallace E. M. Perkins II. Rendrix J. Fon L. Dunnett

W. R. Merriam - This should be tightly held, ! . .

TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL READQUARTERS MULLIKEN -

BARTLETT

DATE September 17, 1970

E. J. Gerrity

CROW H. Hundrix/R. Berrellez CH SCPLYING, PLEASE QUOTE FILE

The surface odds and foreign news media appear to indicate that Salvador Allends will be inaugurated as President November 4, but there now is a strong possibility that he will not make it.

The big push has begun in Chile to assure a congressional victory for Jorgo Alessandri on October 24, as part of what has been dubbed the "Alessandri Formula" to prevent Chile from becoming a Communict stato.

By this plan, following Alescandri's election by Congress, he would rasign as he has announced. The Senate president (a Christian Democrat) would assume presidential power and a new election would be called for 60 days shoad.

Such an election would most likely match President Eduardo Frei, then eligible to run again, against Allenda. In such a contest, Frei is considered to be an easy winner.

Late Tuesday night (September 15) Ambassador Edward Korry finally received a message from State Department giving him he green light to move in the name of President Nixon. The message gave him maximum authority to do all possible -- short of a Dominican Republic type action -- to keep Allende from taking power.

At this stage the key to whether we have a solution or a disaster is Frei and how much pressure the U.S. and the anti-Communist movement In Chile can bring to hear upon him in the next couple of weeks.

The Mercurio newspapers are another key factor. Reeping them alive and publishing between now and October 24 is of extreme importance. CiThey are the only remaining outspoken unti-Communist voice in Chile and under severe pressure, especially in Sontiago. This may well turn out to be the Achilles hael for the Allende crowd.

E. J. Garrity

September 17, 1

Following are some significant points as we see the Chile situation on this date, plus some comment on various factors and a few basic recommendations:

- 1. Allende and the Marxist-Socialist conlition (Unided Popular) are acting like he is the elected President. They are pressing hard on all fronts to consolidate his slim September 4 election plurality into a solid victory in the congressional vote. Chile's Communist Party, a part of the UP coalition, is directing the pressure. Strategy is co-ordinated by the USSR. Party discipline and control thus far is extraordinary.
- 2. The anti-Communist elements, with Alessandri's supporters in the forefront and Frei in the wings both product by the U.S. government, are manuvering—now rather efficiently—to capture the congression: vote and set the stage for a new national election. Given the atmosphere in Chite today, the prospect of a new election is looking more and more attractive as the future looks more and more bleak:
- 3. Since Allende and the UP won only a bit more than a one-third of the total national vote, it is strongly believed that in a two-man race and "democracy vs. communism" showdown. Frei would get most of the Christian Democratic vote--since this would put the party back in power--and all the rightest vote that supported Alessandri.
- 4. For the recent campaign the CD leadership was put in the hands of Radimoro Tomic, who has a deep-grained hatred for Frei and the U.S. The CD national committee is slated to meet early next month and it is expected Frei will regain leadership control. (Tomic already has pledged his support to Allendo).
- 5. Looming ominously over the successful application of the "Alessandri Formula" is the threat of an explosion of violence and civil war if Allende losse the congressional vote. Allende, the UP and the Castroite Revolutionary Movement of the Left (MIR) have made it clear they intend to fight for total victory. Thus, some degree of bloodshed seems inevitable.
- 6. Is the Chilean military capable of coping with nationwide violence of a civil war? Opinion is divided on thin in Santiago. Korry have raid he considers the armed forces a "bunch of toy soldiers." Well-informed

E. J. Gerrite

Saptember 17, 1970

Chileans and some U.S. advisors believe the army and national police have the capability. There are definite reservations about the air force and navy. We know that the army has been assured full material and financial assistance by the U.S. military establishment.

The Chilean military will not move unitatorally to prevent Allende from taking office. They will act only if it is in the framework of the constitution.

7. President Frei has stated privately to his closest associates, to Alessandri and to a State Department visitor last weekend in Vina del Mar that the country cannot be allowed to go Communist and that Allende must be prevented from taking office. Publicly, hevever, he is keeping out of the battle up to this point while feeling cleadily increasing pressure from the U.S. and his own camp. Never known for displaying guts in a crunch, he is faced with a dilemma of not wanting to be charged with either turning Chile over to Communist rule or contributing to a possible civil war. A parlay of his highly inflated ego and a chance to occupy the presidency six more years may provide the necessary starch for his decision

To help strengthen his position, efforts are being made this week to turn this weekend's observance of Chile Independence Day into a pro-Frei demonstration. Main feature of the observance will be a military parade by about 25,000 troops assembled in Santiago.

8. Ambassador Korry, before getting a go-signal from Foggy Boltom, clearly put his head on the block with his extremely strong messages to State. He also, to give him due credit, started to manuever with the CD, the Radical and National parties and other Chileans—without State authorisation—immediately after the election results were known. He has naver let up on Frei, to the point of felling him to "put his pants on."

By the same token, last week when an emissary of Allende called at his office to pay respects and say that the "Allende government wanted to have good relations with the Ambassador and the United States, "Korry responded only that he had been "so busy with consulute affairs helping to get visus for Chileans wanting to leave the country that he had not had time to think of the future." Thus ended the interview.

9. The anti-Allende effort more than likely will require some outside financial support. The degree of this assistance will be known better around October 1. We have pledged our support if needed.

BEST CODY AVAILABLE

E. J. Gerrity

September 17, 1976

10. There is no doubt among trained professional observers with experience in the U.S., Europe and Latin America that if Allenda and the UP take power. Chile will be transformed quickly into a harsh and lightly-controlled Communist state, like Cuba or Caechorlovakia inday. The transition would be much more rapid than Cuba's because of the long-standing organization of the Chile Communist Party. This obviously poses a serious threat to the national security of the U.S. -Sol Linowith. Senator Church and others of the Lame thought notwithstanding--and several Latin American nations. It also is obvious from Allende's pronouncements that existing business and financial links with the U.S. would be strangled.

At a meeting with Arturo Matte at this residence Sunday (September 13), he seemed in a more relaxed frame of mind then on the last visit and he made these points:

- A. The "Alessandri Formula" through which the way would be opened for new elections had the government a and Frei's personal approval. Once elected by Congress, Alassandri would resign, thus earrying out a pre-cluction pledge that he would do so unless he received a plurality or majority of the votes in the regular balloting.
- B. Alessandri did publicly announce his plans to resign if elected last week. It was subsequently learned Frei saw and approved the text of the announcement before it was released to the public.
- C. Frel and his party (at least that wing that he commands) lave a deep interest in this for two reasons: it would block the assumption of power by a Marxist and also give the Christian Democrats a new chance to regain power, this time backed by the Alensandri camp. Alessandris announcement had the effect of alerting the Marxists and Allende that a powerful last-ditch effort was afoot to block them and it also probably may have partially checked a PDC congressional vote swing toward Allende
- D. Matte said the armed forces are agreed on the extreme danger to democracy that Allende's assumption of power involves. They agree he must be stopped. However, the armed forces leadership and Frei profer a constitutional way out (i.e., congressional election of Alessandri) that doesn't preclude violence-spontaneous or provoked.

BEST COPY AVAILABLE

E, J. Corrity

September 17, 1970

- E. A constitutional solution, for instance, could result from massive internal disorders, strikes, urban and rural warfare. This would morally justify an armed forces intervention for an indefinite period. But it was apparent from Matte's exposition that there is little hope for this. The Marxiele will not be provoked. "You can spit in their face in the street," Matte said, "and they'll say thank you." This means that the far left is aware of and taking every precaution to neutralize provocation
 - F. A plan suggested to Frdi, said Matte, calls for the creation of a military cabinet. This would be a form of extreme provocation since it would have a definite psychological effect on the congressional voters who may be undecided about whom they'll vote for in the runoff. But, added Matte, Froi is reluctant to do it without some reason to justify it in the eyes of the public. We inferred from this that Frei will not act on this unless he is confronted; with a severe national crisis.
 - G. The armed forces boss, Rens Schneider, is fully aware of the danger of Allendo moving in. But he will not budge an inch without Proi's oksy. One retired general, Viaux, is all supe-he about moving immediatel reason or not, but Matte said Schneider has threatened to have Viaux shot if he moves unitaterally. Although Viaux has some following after his abortive rebellion a few months ago, it is doubted he commands strongt enough now to carry it off alone.
 - H. Frei, said Matte, is highly worried about the damage to his stature in the hemisphere; he is concerned that he may become, as the Brazilians have put it, the Kerensky of Latin America.

But he still refuses to take the roins in his hand without "moral" reasons. Matte said.

- I. Could be be persuaded, Matte was select, by assurances of fullest support from Washington? He thought that over a while and finally said be thought that would help. The distinct impression, however, was be might have felt this would have to be done with consummate shill and tact so not to offend Chilean national dignity. (Korry's new mandate may serve this purpose).
- J. The military has contingency plans ready for whatever scope operation is necessary, Malle said.

E. J. OCITILY

semember 17, 197

The conclusions from this session were:

The leader we thought was missing is right there in the saidle (Frei), but he won't move unless he is provided with a constitutional threat,

That threat must be provided one way or another through provocation. At the same time, a subtle but firm enough pressure must be brough to bear op Frei so that he'll respond.

Matte did not mention money or any other needs. At the end when it was mentioned we were, as always, ready to contribute with what was necessary, he said we would be advised.

A Communict Party congress was held in Santiago early this week. Among topics discussed was exprepriation. The CUT, national labor confederation, was placed in charge of mapping exprepriation plans. The CUT is controlled by the Communist party.

According to informants monitoring the party congress, the priority schedule has been put in the hands of a man named Bertini and roughly looks like this:

- . 1. Copper companies.
 - 2. The Morcurio newspaper chain.
- 3. Two unspecified "attractive" intorests.

(Those three items would be acted upon quickly. It is assumed in Santiago that Chilteleo probably would full in item No. 3.)

4. Following the early expropriations, a commission would be named to-study which industries should be taken over. The next group of take-overs would be slated for about one year later. Within two years the process would be complete.

......

The Mercurlo chain is hitting at Allende and the Communist party with effect. Allende this week sent one of his top licutenants, Alberto Joran, mentioned as his choice for foreign minister, to see A. Edwards chief representative in Santiago.

September 18, 1970

Purpose of the post-midnight session was to blackmail Mercurio into stopping its anti-Communist campaign. Jeroz stated bluntly that Mercurio and A. Edwards were committing satcide with their attitude. He said Allende had no intention of trying to fool Edwards. He planned to expropriate the newspapers and destroy what they stand for. Jeroz added that the other Edwards interests in Chile could be affected more or less by the attitude taken by the papers in the weeks shead. He said the papers was "inciting sedition and if this continued we cannot control the MIR, which wants to burn the plant." He slee said Edwards could return to the country (he is in the U.S. on business and his family now is in Baires) but if he came back and the paper refused to change "he could be hanged in the Plaza de Armas" after Allende takes power.

The paper in Santiago is in financial trouble. Since election day it is running about 10 to 15 per cent of its normal advertising. They will have a close equeue meeting this end-of-the month pay roll.

6444444

As you have read in news stories. Chile's economy is sagging badly. But runs on the banks have stopped and the escude has settled back down to around 25 on the black market.

'Unemployment is rising rapidly, especially in the construction sector. About 5000 workers already have been laid off in Santiago construction as projects are being shut down. It is estimated that over-all layoffs will affect about 30,000 in Greater Santiago by the end of this month.

We will be advised what help we can contribute as present activities develop between now and early October.

To have recommended, apart from direct assistance, the following:

- 1. We and other U.S. firms in Chile pump some advertising intagenceric. (This has been started).
- 2. We help with getting some propagandists working again on radio and talevision. There are about 20 people that the Matte and Edwards groups were supporting and we should make certain they are revived.

 Allende now controls two of the three TV stations in Santiago and has

E. J. Gerrity

September 18, 1'

launched an intensive radio campaign.

- 3. Assist in support of a "family relocation" conter in Mendoza for Daires for wives and children of key persons involved in the fight.

 This will involve about 50 familes for a paried of a month to six weeks, maybe two months.
- 4. Bring what pressure we can on USIS in Washington to inciruct the Santiago USIS to start moving the Mercurio editorials around Latin America and into Europe. Up until I left they were under orders not to move anything out of Chile.
- 5. Urge the key European press, through our contacts there, to get the story of what disaster could fall on Chile if Allende & Co. win this country.

These are immediate suggestions and there will be othere between now and October 24 as pressure mounts on Frei and the Christian Democrats.

HH:lonp

co: E. Dunnett

K. Porkins

E. R. Wallace

PERSONAL & CONTIDENTIAL

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036

TO:

Mr. W. R. Merriam

DATE: September 21, 1970

FROM

J. D. Neal

Suescer: Chile

The excellent Chile report of September 17 to Mr. Gerrity from Hal Hendrix and R. Berrellez is in such depth there is little to add with reference to my call at the State Department on September 16. However, there are a few points of interest.

John Fisher, the new Director of Andean and Pacific Affairs, said Ambassador Korry is fully convinced that if Allende becomes President there will be no half measures -- the country will be communist controlled.

Along the lines of the H-B report, State said the Allende-Communist forces moved very quickly to take over all possible media, TV, radio, etc.; El Mercurio newspaper is about the only source fighting Allende.

State has little or no faith in the Chilean military's willingness or ability to take control.

Should the Christian Democrats make demands of Allende, such as not to change the form of the government, meddle with the military, etc., the State Department said Allende will agree but will not live up to his promises.

I told Fisher we had spoken to the White House and to his boss, Assistant Secretary Meyer, and that we are ready to see anyone or do anything possible. He said he understood our concern, but thought we had covered the water front.

PERSONAL & CONFIDENTIAL

THIS IS ITT WASHINGTON

9/22/70

CRYPTEL 249

PLEASE FORWARD FOLLOWING MESSAGE TO ITT EUROPE BRUSSELS

TO: MR. H. S. GENEEN - Par. Nº1

FROM: E. J. GERRITY, ITTW S. UP. W.

CC: F. J. DUNLEAVY, ITT EUROPE

J. W. GUILFOYLE, ITTNY E. R. WALLACE, ITTNY

(NO OTHER DISTRIBUITION OF THIS MEMO SHOULD BE MADE)

PERSONAL AND CONFIDENTIAL CRYPTEL 240

THE HENDRIX AND BERRELLEZ MEMO WHICH WE DISCUSSED LAST FRIDAY
HAS BEEN CONFIRMED. BILL MERRIAM REVIEWED THE ACTIONS BEING
TAKEN TODAY WITH THE MAN YOU INTRODUCED HIM TO SUME MONTHS AGO.
IT IS CLEAR THAT THE STRATEGY OUTLINED IN THE HENDRIX MEMORAPHIM
IS THE BEST COURSE TO BE FOLLOWED. BILL'S CONTACT SUGGESTED
THAT ALL POSSIBLE PRESSURES SE EXERTED. HE REPORTED THAT PRESSURE
IS BUILDING ON THE, SCENE.

GERRITY .

END OF MESSAGE

INTER-UFFICE MEHORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036 Chilichian

Tot

Mr. W. R. Merriam

DATE: Sept. 23, 1970

FROM:

B. A. Goodrich

SUBJECT

U.S.I.S. Visit on Chile

I visited today with Robert Amerson, assistant director for Latin America, U.S.I.S., and Mike Cenning, of the U.S.I.S. Chilean Desk. I first backgrounded them on our information on the Chilean situation. They agreed with our information in most cases except they seem to feel that with each passing day the chance of any successful move by Frei or Alessandri is diminishing.

I told them that I was there for three basic reasons. First, to let them know what we were doing in terms of supporting Mercurio's shaky financial situation; to urgo them to circulate widely the Mercurio editorials throughout Letin America, if they were not already doing so; and to ask them if there is onyining they can see that we can do as a private company which may not be possible for government to do. On the latter point they stressed that nothing overt should be done that could be interpreted as U.S. intervention. I assured them that our people were well experienced in that field.

They said that they appreciated what we were doing in terms of financial support of the newspaper. In answer to my question about moving the Mercurio editorials around, Amerson said the editorials were appearing every day and U.S.I.S. is circulating them.

BAG/mb

cc:

J. V. Horner

J. D. Neal

Mr. R. L. Schmidt

Septombor 23, 1970

W. R. Morrism

In a conversation with Ned this morning, he fools it's about time to move on getting someone to do comething about Chile on the floor of the House and/or Senate.

The attached elippings, together with an editorial from the Washington Port of yesterday, and Salph Dunjan's stupid piece this morning of the Port, should serve as background.

I suggest you get together with Bernie Goodrich to decide what can be prepared. Incidentally, Bernie leaves on Saturday for Europe so you will have to work fact on that end of it.

WRM/IL

Attachments

ce: Mr. B. Goodrich

1.493

System Confidential

THIS IS ITTLA BA 3.00 PM/CC

TO PETER JOHES C/O BUILFOYLE - ITTHO HY

PROM R. LIFISIO. DATE SEPT 24, 1970

DATE SEPT 24, 1970

RECEIVED IN CRYPTEL RECEIVED STORM EDT/RD

RECEIVED STORMUNICATIONS 1493/P

S VS TE M CONFIDENTIAL

LA/3955/I

RETURNED FROM CHILD YESTERDAY NOON. MAY MEED TO GO BACK NEXT VEEX.

I FOUND IN SANTIAGO A CLIMATE OF FEAR AND SUSPICION WHICH MAS
PARALIZED THE IMAGINATION OF EXECUTIVES AND COMPANIES. I SPOKE
WITH PRICE WATERHOUSE AMONG OTHERS AND THEY ARE NOT ANAMED OF ANY
PROTECTIVE NEASURES TAKEN BY FORRIGES COMPANIES AS YET. NOST
SOPHISTICATED MINDS IN CHILE ARE COMPUSED AND NOW EVEN SUPPORTERS
OF ALLENDE ARE FEARFUL AND TO NOT KNOW WHAT TO EXPECT OF THEIR
FUTURE. I HAD LONG WORKERS SECSION WITH RAVINET REVIEWING.
FACTORY PROFILEMS FORESEN FUTURE GOVERNMENT INVESTIGATION.
MY FEELING IS 9 TO 1 THAT ALLENDE WILL BE ELECTED. MY SUSSESSION INTO HAVE A LASK FORCE RIGHT ANY AND TAKE ANY MY AVAILABLE
TIME TO PUT OURSELVES IN THE BEST BARGAINING SITUATION.

REGARDS. LIFSIC.

ORIGINAL TO MR JONES C/O MR GUILFOYLE

END OF MESSAGE.

System Confidential

(2) LATIN AMERICA UFG.

AIDEL BENNET (DUMLE MURTA				C CAUE	SCHAFFE? WEADCOIL
CGOKSON	osnet -	5 EARLAY	RLTTAR, 2,	.S	ABBA	
Alis	PACI	DRITTERHAN .	FAIRFILLO	CUILI	SYL F	KATHAI
. DARNE	HES	CROSHY	FLARS	HODGS	on .	MOSSBERG
		KLEKHALIVER	PIFRSON	KIND S		THEOFEL

Mr. J. P. Pitzyatrick

September 28, 1970

E. J. Gerrity

Eucleons Week on Chile

Attached is a copy of the current (Sept. 26) BW editorics on Chile. It foctors the thought that all to right with the world. Suggest you pull together some material such as we discussed last week to most this cituation. There is no relation between the editorial and the facts of the situation in Chile.

Attachmezt

eet W. R. Sorrism - with attach.

D. A. Comisiek

J. V. Horner P. K. R. Wellace

J. L. Louden "

K. M. Perkins "

E. Dansett "

H. Headels

TITT LATIN AMERICA INC.

Ar Lice freety-de-no freety-de-no hall server soo - overos alaes - architika social server social sura outside ordina

TO

Hal Hendrix - ITTHQNY

FROM

Robert Berrellez - ITTLABA (1

SUBJECT

Chileans

DATE September 29, 1970

WHEN REPLYING, PLEASE QUOTE FILE

PERSONAL & CONFIDENTIAL

Capsuled situationer:

It appears almost certain that marxist Salvador Allende will be confirmed by the Congress as Chile's next President. The Congressional runoil vote is scheduled October 24.

There's only a thin tendril of hope of an upset based on a sharp and unlikely switch in voting sentiment among the Christian Democrats who hold the balance of power in the runoff. The prevailing sentiment among the PDC is said to favor Allende.

A more realistic hope among those who want to block Allende is that a swiftly deteriorating economy (bank runs, plant bankruptcles etc.) will fouch off a wave of violence resulting in a military coup.

President Eduardo Frei wants to stop Allende and has said so to intimates. But he wants to do it constitutionally—i.e., either through a congressional vote upset or an internal crisis requiring military intervention.

The armed forces are ready to move to block Allende-but only with Frei's consent, which does not appear to be forthcoming. In other words, Frei has passed the ball to the armed forces and the military will not act without Frei's orders unless internal conditions require their intervention.

- 0 -

Details:

1. Chances of thwarting Allende's assumption of power now are pegged mainly to an economic collapse which is being encouraged by some sectors of the business community and by President Frei himself. The next two weeks will be decisive in this respect. Cash is in short supply. But the government is printing more money. There's an active black market with the escudo moving at a 29 to US\$ 1.00 rate on Monday. It had gone down to \$26.50 to US\$ 1.00 on Friday. The pre-election rate was 20 to 21 to US\$ 1.00. Undercover efforts are being made to bring about the bankruptcy of one or two of the major savings and loans associations. This is expected to

trigger a run on banks and the closure of some factories, resulting in more unemployment.

- 2. The pressures resulting from economic chaos could force a major segment of the Christian Democratic party to reconsider their stance in relation to Allende in the Congressional runoff vote. It will become apparent, for instance, that there's no confidence among the business community in Allende's future policies and that the health of the nation is at stake.
- 3. More important, massive unemployment and unrest might produce enough violence to force the military to move. The success of this maneuver rests in large measure on the reaction of the extreme and violent (Castroite, Maoist) left in Allende's camp. So far he has been able to keep these elements controlled.
- 4. It's certain that Allende is on to this scheme. He has referred to it in recent public statements. He is also certainly aware of the government's (and Frei's) complicity. Last week the finance minister issued a pessimistic report on the national economy, placing the blame on the results of the September 4 election. The statement was issued with Frei's blessings. Although it reads as an objective and realistic evaluation of economic conditions, the statement aroused the Allende camp which severely criticized it as provocative.
- 5. All previous evaluations of Frei's weaknesses in a crisis are being confirmed. Worse, it has been established beyond any doubt that he is double-dealing to preserve his own stature and image as the leader of Latin America democracy. For instance: he told some of his ministers he'd be more than willing to be removed by the military. This would absolve him from any involvement in a coup that, in turn, would upset Allende. Then, he turned right around and told the military chiefs he is totally against a coup.
- 6. A group of respected political and business leaders called on Frei Sunday at Viña del Mar, the beach resort, to call his attention to these lapses. I could not determine the results of this confrontation or its basic purpose. The assumption is that by confronting Frei, the group hoped to press him into a definitive move in the one desired direction.
- 7. As a result of all this inertia, an aura of defeat has enveloped important and influential sectors of the community. Some businessmen who seemed all gung-ho about stopping Allende are now talking in terms of trying to make some deals with him. Others have given up and are

(more)

getting ready to leave the country.

- 8. Some Childen businessmen have suggested we try to deal in some manner with Aliende in an effort to rescue at least a portion of our investment instead of losing it all. At this writing, we have been told that Allende's representatives have asked for a meeting with Sheraton representatives to discuss Allende's future policies concerning the hotels. My personal view is that we should do nothing to encourage or help the Allende team. Every care should also be exercised to insure that we are not identified openly with any anti-Allende move.
- 9. No hope should be pegged to consisting the Christian Democrats are demanding from Allende in exchange for their support in the Congressional vote. Some believe that if Allende turns them down the PDC will not vote for him. Allende will promise anything at this stage. Purthermore, many of the conditions the PDC is making are covered by the constitution to which Allende will pay lip service for a while until he is firmly inthe saddle and has consolidated his hold so that he can move toward converting Chile into a communist, self-perpetuating state.
- 10. It is obvious from his latest remarks, however, that Allende fe as something is in the wind to deprive him of the presidency in the commission hal vote. On Monday he warned that he would bring the nation to cover war if he was not voted into power.
- 11. Meantime, the Russians are busy helping shore up Aller 40% defenses. Since the September 4 election, the Russian embassy staff in Santiago added 20 new staffers.
- 12. An extreme rightist faction launched a series of terrorist acts. Sunday (bombings mostly) in what appeared an amateurish attempt to provoke the Castroite-Maoist sector into a violent backlash that would produce the conditions conducive to a military intervention. The bombings failed to arouse anything outside of police action which resulted in the arrest of some of the bombers. This, we are told by the most authoritative sources, is the far right's last effort to provoke the far left in this particular manner.

- 0 -

The sum-up:

1. A Congressional defeat for Allande is unlikely at this stage. The defeated Christian Democratic candilate, radomiro Tomic, is backing Allende and can take a sizeable segment of the PDC vote with him.

(more)

- 2. Despite some possimism, a high level effort continues toward getting Frei and/or the military to stop Allende.
- Although its chances of success seem slender, we cannot ignore that a roadblock to Allende's assumption to power through an economic collapse has the brightest possibilities.

RB/mp

cc: Messrs. £. Gerrity, ITTHQN

E. Wallace,

K. Perkins,

E. Dunnett,

Catentan	SECRITY: LITT PULICY ER 2,4/1) SYSTEM CONFERENTIAL - COOLD SYSTEMA AND CONFERENTIAL - 3 CONTENT OF THE COOLD		friginator pary complete wateroom on lett, ottarvist mesage all be pattered to originator	
CARGE TO: Corporate	Relations DAT Suptember 29, 19		Send original to Correstentions - Sta Pla	
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70: Mr. H.S. Ger	neen	COPIES TO: F.J. Dun	leavy -ITTE, J.	
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Brussels, Bel		ITT Wash	-	
(recuries)	STRIC	TLY NO WHIE	R DISTRIBUTION	
"THE VISITOR"	text: PLEASE SEND VIA CRY	<u> </u>	M. J. B. J.	
ar, broe ?	SUBSEQUENT TO YOUR CALL YESTERDAY I HEARD FROM			
DO	WASHINGTON AND A REPRESENTATIVE CALLED ON MF-THIS			
•	MORNING. HE WAS THE SAM	E MAN YOU ?	MET WITH MERRIA!	
NOT	SOME WEEKS AGO. WE DISCUSSED THE SITUATION IN DETAIL			
	AND HE MADE SUGGESTIONS BASED ON RECOMMENDATIONS			
TYPE	FROM OUR REPRESENTATIVE ON THE SCENE AND ANALYSIS			
. 1116	IN WASHINGTON. THE IDEA HE PRESENTED, AND WITH WHICH			
1N	I DO NOT NECESSARILY AGREE, IS TO APPLY ECONOMIC			
	PRESSURE. THE SUGGESTIONS FOLLOW:			
•	1. BANKS SHOULD NOT REN	EW CREDITS	OR SHOULD DELAY	
THIS	IN DOING SO.			
	2. COMPANIES SHOULD DRA	G THEIR FEE	T IN SENDING MON.	
SECTION	IN MAKING DELIVERIES, IN SHIPPING SPARE PARTS, ETC.			
•	T. SAVINGS AND LOAN COMPANIES THERE ARE IN TROUBLE.			
٠.	IF PRESSURE WERE APPLIES	D THEY WOUL	IN THE TO SHUT	
	THEIR DOORS, THEREBY CR	EATING STRO	NGER PRESSURE.	
•	(Pick Un Page 2)		-	

4. WE SHOULD WITHDRAW ALL TECHNICAL HELP AND SHOULD NOT PROMISE ANY TECHNICAL ASSISTANCE IN THE FUTURE.

COMPANIES IN A POSITION TO DO SO SHOULD CLOSE THEIR DOORS.

5. A LIST OF COMPANIES WAS PROVIDED AND IT WAS SUGGESTED THAT WE APPROACH THEM AS INDICATED. I WAS TOLD THAT OF ALL THE COMPANIES INVOLVED OURS ALONE (AD BEEN RESPONSIVE AND UNDERSTOOD THE PROBLEM. THE VISITOR ADDED THAT MONEY WAS NOT A PROBLEM.

HE INDICATED THAT CERTAIN STEPS WERD BEING TAKEN
BUT THAT HE WAS LOOKING FOR ADDITIONAL HELP AIMED
AT INDUCING ECONOMIC COLLAPSE. I DISCUSSED THE
SUGGESTIONS WITH CUILFOYLE. HE CONTACTED A COUPLE
OF COMPANIES WHO SAID THEY HAD BEEN GIVEN ADVICE
WHICH IS DIRECTLY CONTRARY TO THE SUGGESTIONS I
RECEIVED.

REALISTICALLY I DO NOT SEE HOW WE CAN INDUCE OTHERS
INVOLVED TO FOLLOW THE PLAN SUGGESTED. WE CAN CONTACT

KEY COMPANIES FOR THEIR REACTIONS AND MAKE SUGGESTIONS
IN THE HOPE THAT THEY MIGHT COOPERATE. INFORMATION
WE RECEIVED TODAY FROM OTHER SOURCES INDICATES THAT
THERE IS A GROWING ECONOMIC CRISIS IN ANY CASE.

Otherwoods, E. Phy Press, 33.

Page 3

GUILFOYLE RECEIVED A CALL THIS AFTERNOON FROM A
REPRESENTATIVE OF THE KEY CANDIDATE ASKING US TO DO
NOTHING TO ROCK THE BOAT BECAUSE FORCES ARE AT
WORK TO SOLVE THE PROBLEM.

I ADVISED THE VISITOR THAT WE WOULD DO EVERYTHING
POSSIBLE TO HELP BUT I POINTED OUT IN DETAIL THE
PROBLEMS WE WOULD HAVE WITH THE SUGGESTIONS HE HAD
MADE.

FINALLY, BOB BER CELLEZ HAS JUST SENT A REPORT WHICH
IS PESSIMISTIC AS TO THE OUTCOME NEXT WEEK. THIS REPOR'S
IS BEING DELIVERED TO YOU BY MR. BARR OF THE TECHNICAL
DEPARTMENT WHO IS LEAVING FOR BRUSSELS THIS EVENING.

GERRITY

PERSONAL & CONFIDENTIAL

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STRECT, N.W. WASHINGTON, D. C. 20036

To:

Mr. W. R. Merrian

DATE

September 30, 1970

FROM: J. D. Neal

Sum Irey

Chile - A Questionable U.S. Policy

The unfortunately heavy probability that Allende will take office in November is well known to the State Department and Embassy Santiago. Both believe Allende will start early and systematically attack foreign private enterprise. Thus forewarned, we should hope the Nixon Administration will be prepared to move quickly to exert pressure on Allende. However, because of our weak policy in the Hemisphere during the past two years, we cannot count on such immediate and effective action.

I fear the Department of State will convince the White House to again circumvent the Hickenlooper Amendment -- as it has done in Peru, Bolivia, and Ecuador, etc. Instead, I look for the silent pressure (?) which will call for a drying-up of aid and instructions to U.S. representatives in the international banks to vote against or abstain from voting on Chilcan loans.

For the past several years the State Department has been predicting an upsurge of Marxism in Chile, and foresaw the culmination of the threat in the September.1970, elections. Knowing this, the U.S. stepped up its AID program in an attempt to help Chile remain democratic. Following are the figures for economic assistance to Chile between 1961 and 1968 in millions of U.S. dollars:

••	•
1961	132.8
1962	169.5
1963	83.7
1964	127.4
1965	- 130.9
1966	107.7
1967	284.6
1968	99.8

PERSONAL & CONFIDENTIAL

PERSONAL & CONFIDENTIAL

The 1969 estimate was over 100 million as, no doubt, fiscal year 1970 was the same or more.

The above total includes both AID loans and grants. A few weeks ago, the State Department estimated the outstanding loan total in Chile would be in the area of a billion dollars. Allende has already expressed a desire to re-negotiate this figure; probably wishing to offer Chilean bonds!

The foregoing means the U. S. realized the danger of Marxism in Chile; so fought it with grants and loans, but did not have the extra forethought to follow its intuition by taking a more active part during the pre-election period to assure the descat of Allende.

The State Department and AID admitted in public congressional hearings that, "Chile is a country of major U. S. assistance emphasis because of its important political role in the Hemisphere." They continued the hearing by saying the liberal U. S. loan policy to Chile is justified because they were putting the money in there to fight Marxism. However, now that its program failed to prevent Allende from winning the election, the U. S. says, "This is a Chilean matter, thus, we must not interfere!"

Why should the U. S. try to be so pious and sanctimonious in September and October of 1970 when over the past few years it has been pouring the taxpayers' money into Chile, admittedly to defeat Marxism. Why can't the fight be continued now that the battle is in the homestretch and the enemy is more clearly identifiable?

PERSONAL & CONFIDERTIAL

-September 30, 1970

MEMORANDUM TO:

Mr. F. J. Dunleavy

SUBJECT:

Chile

RECEIVED

OCT 5 1970

J. Donasay

Benny Holmes and

- have been in New York
for the past several days and have met with all cognizant personnel in the Staff
departments. Following courses of action are being taken in the various areas:

- Ned Gerrity's reports combine all of the information regarding the political scene and the information available from Benny, and other Chileans that they have heard from both in Santiago and in New York. In summary, they think that Allende will be elected by Congress but be tempered for one or two years because of the Constitution and the efforts of the Christian Democrats and Conservatives. servatives. After that they think it is possible that it will become a Communistic State. They do, however, feel that the Alessandri formula with Frei elected President is a possibility, but it hinges, entirely on Frei and his willingness to act in a positive manner. There is very little indication at the present time that he is acting. He stands today as the man who will turn over his Country--Chile-to the Communists and Socialists or the man who becomes the savior of Chile and insures the Christian Democrats control for a decade or two. It is clear that the Conservatives won't put up another candidate but will be forced to go along with the middle left Christian Democrats in future presidential elections.
- 2. We have reviewed in considerable detail with Legal, Treasurer's, Comptroller's and operating personnel the current situation regarding our Concession Contract, the Convenio, our AID guarantees and all actions are being taken to protect our position.

At the present time there are three outstanding items which have got to be ratified by the Chilteleo Board and representatives of the government and they are as follows:

- A. -Approval of the ITT Advisory Contract as required under the 1967 Convenio.
- Approval of the 1969 balance sheet as audited by our auditors and the government auditors. This is normally done at the October/November meeting when final Fiscal Director approval is received.

Mr. F. J. Dunlcavy

- 2 -

Scptember 30, 1970,

C. Approval of the Installation Contract and a rate per hour and number of hours for installation between Chiltolco and CSESAC. This requires Chiltelco and Governmental Directors approval.

- visited New York on Sunday and Monday, September 27 and 28. In a meeting in my office on Monday morning we discussed the items above and

has agreed to see that each of these frems are approved subject to the information that we had agreed to present to him and at the rates we had proposed. The management advisory fees will be at 1.5% of gross additions and a .25% of revenues giving us about an equivalent of al% revenue return. He accepts this as this is similar to AT&T and feels he will have no trouble selling same.

Regarding the balance sheet approval, Edgardo Cruz, a Government Director, advised Benny before he left Santiago that they were expediting the audit and saw no problem of having it ready for the Board Meeting the second week of October. This has been usually a routine approval.

Regarding the installation contract; Nick Theofel is to get documented rates from ITT companies of installation charges we make to Entel, CTB, etc. and the number of hours authorized. If all of these are in excess of \$3.00 per hour with 72 hours per frame proposed at the time of the Convenio Astrain saw no problem in approving this if Theofel provides the input. This is being put together currently. We will finalize next week in BA and have it handcarried to Chiltelco.

- 3. Reviewed in detail security of both the Company and personnel and I discussed same with Dick Lavoie. He concurs what is being done now is reasonable and satisfactory. As I have advised you the military have had Benny Holmes prepare emergency lists in the event of a requirement for a short term crisis which we have listed under ABC critical people to keep the Company operating. Furthermore this would provide additional military and/or police protection. The Minister of the Interior has been cooperating fully with Benny in this area.
- 5: The financial and/or cash situation will be critical for sometime to come. As you know there was a run on the banks in early September following the election and new loans are going to be difficult to get.

Mr. F. J. Dunleavy

- 3 -

September 30, 1970

5. (Continued)

Many companies have already begun stretching out payments. The Telephone Company has felt the impact of people not paying their bills on time. In addition, over the weekend there was a strike of the computer group which is vital to billing in the Telephone Company. We met with the Treasurer's Department and reviewed several methods whereby funds could be made available. Benny is convinced that he will be able to meet the needs of Chiltelco and keep the factory going in meeting payroll and their due bills. Nick Theofel is looking at the factory this week and on Benny's return we will get a composite requirement for all of the operations in Chile—the Telephone Company, the factory, hotels, world directories, worldcom, etc. In the meantime Hal Block is working closely with Benny on this.

cc: Mr. R. E. Bennett

. W. Guilfoyle

Sept. 30, 1970	PF
Ned:	-d
Attached is copy of AP story out of Santiago, Chile last night.	
Tik	
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LR LR QR	PF	SP	
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SA-12 (TRANS)

SANTIAGO, CHILE, SEPT. 29 (AP) - THE MINISTER OF DEFENSE, SERGIO CSSA PRETOT, ASSURED LEGISLATORS THE ARRED FORCES WILL RESPECT THE DECISION OF CONGRESS WHEN IT MEETS NEXT MONTH TO DECIDE IF MAPXIST CANDIDATE SALVADOR ALLENDE WILL BECOME PRESIDENT OF CHILE.

THE DEPENSE MINISTER GAVE THIS AND OTHER ASSUPANCES IN A MEETING LATE MONDAY WITH DR. THOMAS PABLO. THE PRESIDENT OF THE SENATE.

OSSA PRETOT ALSO ASSURED PABLO, A CHRISTIAN DEMOCHAT, THAT COMGRESS WILL BE FREE OF PRESSURES WHEN THE HOUSE AND THE SENATE PERT IN JOINT SE SSION OCT 24 TO DEC. LE A RUNOFF ELECTION BETWEEN ALLENDE AND FORMER PRESIDENT JORGE ALESSANDRI, A CONSERVA TIVE INDEPENDENT.

PTHE MINISTER HAS ASSURED US THE AREM FORCES WILL RESPECT THE DECISIONS OF CONGRESS", PABLO TOLD THE ASSOCIATED PRESS TUESDAY. "HE GAVE US PULL ASSURANCES THE ARMED FORCES ARE GOING TO GUARANTEE CONGRESS ABSOLUTE FREEDOM TO ELECT.

"SPECIAL SECURITY MEASURES WILL BE ADOPTED TO ENSURE THAT".

(GALIARDC/LEVI)

RCotta/sept30/1209pm/

INTERIORAL HEADQUARTERS

1 150

Mesors. Morrian Meal Ryan

FROM E. J. Gerrity

TOJUBUR

Personal & Confidential

PERSONAL AND
CONFIDENTIAL

OMIC September 30, 1970

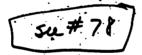
WHEN BEPLYING PLEASE GUDTE SILE

Yesterday, subsequent to my visit from Mr. Broe, Jack Guilfoyle was advised of the following by Enno Hobbing of CLA:

Hobbing was visited yesterday by <u>Gregorio Amunategui</u>, who is an Alessandri representative. Gregorio had come from Santiago and his message to Hobbing from Alessandri was-- keep cool, don't rock the boat, we are making progress --.

... This is in direct contrast to what Broe recommended.

I will call you later to discuss HSG's reaction to my telex in some detail. He agrees with me that Broe's suggestions are not workable. However, he suggests that we be very discreet in handling Broe.



Personal and Confidential الله الم

Heat Consumed

V'erlé l'essi, rentara

320 Perk Averue Row York, E.Y. 10022 Yel. (212) 752 0000

Legal Department

To: Mr. H.J. Aibel

Date:October 2, 1970

From: C.N. Goldman

Subject: Chilicles - AID Investment Cuaranties

On October 1st Dick Dillenback, John Meyer and I travoled to Washington to meet with the responsible AID officials in order to establish liaison with AID during the coming months and discuss certain questions which had arisen during my review here of the AID contracts. We met with Marshall Mays, Willis Jourdin, Thomas Membach and Jerry Morean. Mr. Morgan is an attorney with AID Contract Group which will shortly become the Overseas Private Investment Corporation.

Harry Preeman, head of private resources; Chile task force and Cecil mint, Assistant General Counsel for Private Resources, were both in Santiago.

The AID officials requested that all communications be sent to Willis Jourdin, who will be directly responsible for all outstanding Chile guaranty contracts. It was agreed that If I would report to Will Jourdin only those developments in Chile which directly affected any of the covered enterprises. There is as yet no AID contact in Santiago. For the time being, all liasion will be handled through AID in Washington.

The AID files are incomplete and we have been requested to send copies of the 1930 Concession Agreement, the 1958 Converte, the 1967 Convento in English and Spanish and the LTF Sud Americal Childeleo loan agreement. I will dispatch these decuments that exactly,

In view of the problems AID had encountered in resolvation prior claim in Nigeria, Manshach suggested that we obtain extracts of a titiens of the Children Looks certified by Children's chief finance looks.

TEGAL GOTTABATHAL

Page Two

MICH COMP FIRM

In particular, Mansbach would like extracts from the capital account from 1965 to date sufficient to show Childeled's earnings for each year in question as well as amounts repatriated. He is also interested in changes in the capital structure including a year-by-year demonstration of the percentage of ownership attributable to ITT and Corfo. Mansbach agreed with my suggestion that we obtain this information as of the end of each year beginning December 31, 1965. In addition, he suggested we have available certified balance sheets and profit and loss statements for each annual period beginning December 31, 1965. This naterial is not to be submitted to AID at this time. Mansbach suggested that we obtain it an once and have it available in New York to simplify our dealings with AID should the necessity arise.

Although Mansbach indicated that AID's financial staff would conduct the analysis of the statements, he indicated that AID would probably want to look at the consolidation accounts, maintained for Chilteleo in New York as well as the extracts from Chilteleo's own books.

The following questions were discussed informally and $\underline{\text{off}}$ the record:

- 1. We indicated that we intended to keep AD fully informed as to any negotiations we may have with the Chilean government and Jourdin indicated that this was proper in his opinion. He recognized that difficult problems were apt to develop in reaching a decision as to whether to continue or cease negotiations and whether to accept a given offer of compensation made by the Chileans should one be forthcoming. We agreed that these problems could not be discussed definitively in advance and that they were best handled by continue contact.
- 2. AID agreed that we have a right to "put" to AID compensation offered by the Chileans and that we could then claim compensation under the AID contracts. In other words, upon the assignment of the Chilean compensation to AID, assuming our compliance with other conditions of the contracts, we are entitled to compensation by AID.
- 3. The AID contracts require that an expropriatory action be in effect for one year before we are entitled to compensation from AID. There are no precedents on waiving this period although it can be shortened in AID's discretion.
- 4. The AID officials refused to comment on methods of valuation of compensation offered by the Chileans, saying that they had not yet had a case where the expropriating country has offered compensation. There are only two precedents in this area: Valentine in Haiti which was decided by arbitration and Abatex in Biafra which was handled administratively than the same of the control of the contr

Mr. d. J. Aibel Page Three

October 2, 1970

HELL CONTROL

by AID.

5. With respect to assignment of our interest in Chilteleo, AID will insist upon an assignment of the full value of our insured equity or debt interest in the amount of compensation payable by AID to us. However, the AID officials stated that the allocation of Chilean compensation was open. AID will attempt to trace the compensation and identify that portion of our interest to which it relates. In the tracing process, they reserve the right to object to any allocation made by the Chileans. It is extremely important to note in this connection that we may be able, in negotiation of this allocation, to assign to MD an amount of compensation received from the Chileans which is less, in percentage terms, than the value of the compensation we receive from AID for our interest in Chilteles.

The meeting was cordial and, I believe, extremely useful.

CNG:ms

cc: Mosers, R.C. Nateson

M. Bogie P.J. Connery

R.R. Dillenbeck

E.J. Gerrity J.W. Guilfoyle H. Hendrix

W.R. Merriam

J. Meyer

Ncal

J.M. Stimson

N. Theofel

LEGAL CONFIDENTIAL

Mr. H.S. Cencon

E. R. Wallaco

Chile

PERSONAL AND .

October 5, 197,

I received a copy, by airmail special delivery, of the Lendon newspaper carrying a double headline across Page 1 talking of the headreds jailed in Cairo.

This copy is now on its way to Chile. Hal Hondrix is carrying it and our plan is to (1) evoke out of the Argentine newspaper editorial comments here on the late that is posed by the accession of Allendo, and (2) to have the newspaper Page 1 reproduced in Cirls for the purpose of distributing it breakisted an a proposanda place and as a special delivery to manners of the Congress, prior to the vote on the presidency.

The use of this in this manner has been discussed with our Washington friends who feel it can lend effectiveness.

CC: E. J. Gerrity
W. R. Morrism/J. D. Neal Reserved COV FOR

COMPONIAND

PERSONAL & CONFIDENTIAL

October 6 conversation with Mr. Broe, CIA re Chile (call made 3:30 p.m.)

/(Christian Democrats
Mr. Broe said the "picture is not rosy" -- the PCD had their meeting -they did not vote completely to support, but they voted 271-191 to sit down
and negotiate to amend the constitution to protect situation.

Mr. Broe believes this is not satisfactory, because Allende can guarantee anything and then not carry it out.

one of Broo's quotes: "he only needs a few votes to carry him" -apparently this pertains to Christian Democrat meeting re constitution,
or maybe his position as far as Congressional approval is concerned right now.

Broe says the country is still in turmoil, it seems the women, labor, and farmers are against deal -- and "this is the group that will fight" -- and if there are eruptions the military might take a stand.

Broe advises to keep on the pressure; this because A. should not take office with "complete support" and also for the weakening we might accomplish after he does take office -- also, "there is always a chance something might happen later".

Last week A. was given guarantees that he might agree to concerning control of government -- he did not agree. He now sees that this was wrong, so has changed his mind and agreed to negotiate with them.

page 2

"The military still might do something"

Broe said that must keep pressure on -- he emphasized this several times.

Suggested something like a run on the banks -- anything to keep pressure on.

'He couldn't find newspaper article you had mentioned to him.

INTER-DEFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W, WASHINGTON, D.C. 20036

mr. E. J. Gerrity, Jr

DAYE: October 7, 1970

W B Marriam INRIV

Unifer:

Chile

Our man reports nothing new and "picture is not rosy." He says

Prewett column exaggerated. Repeated calls to firms such as GM, Form
and banks in California and New York have drawn no offers of help.

All have some sort of excuse. English papers were delivered. His
only message is that everyone should keep the pressure on because
Allende should not take office with "complete support" and also for the
weakening we might accomplish after he does take office -- "there is
always a chance something might happen later."

The information we are receiving from Hendrix and Berrellez is up-to-date, factual, and concise as any coming out of Chile. The State Department says it is swamped with rumors and facts; so there is no lack of information there either.

Everyone foresees an Allende victory in Congress unless some last minute miracle takes place. There is no, repeat no, solid news showing even a chance that Allende can be stopped.

The State Department says one factor which has paved the way for Allende is the failure of President Frei to take a strong position against Dr. Allende. They feel he could be stopped if Frei would stand firm for his country and quit trying to play the part of Hamlet, wishing to go down in history as the great democrat. Frei has not rallied the Christian Democrats as is believed possible.

The lack of strong political activity on the part of Chile has hampered outsiders like the U.S. and Argentina in trying to help defeat Allende

Assistant Secretary of State Meyer leaves tomorrow for a week in Haita and Santo Domingo (while Santiago burns)!

WRM:kg

October 9, 1970

TO:

Mr. McCono

FROM: .

W. R. Morriam,

At Ned Gerrity's suggestion I am attaching a summary of a report which we recently received from our people in Latin America. I think you will find it interesting.

Today I had lunch with our contact at the McLean agency, I bna summarize for you the results of our conversation. He is still very, very pessimistic about defeating Allende when the congressional vote takes place on October 24. Approaches continue to be made to select members of the Armed Forces in an attempt to have them lead some sort of uprising -- no success to date.

In the meantime, Allendo continues to hold meetings with small groups of Army, Navy and Air Force people promising them, personally, that he will see to it that they will be promoted; that their pay will be increased, etc. Thus, it is easy to understand why there is a problem in getting the military to take action.

To follow up the vote last weekend, which ordered the hierarchy of the Christian Democrats to work out the wording of a constitutional amendment which Allende would subscribe to and which would limit him in some of his far-out ideas, various small committees of three have been appointed. It is interesting to note that the persons appointed to serve on these committees are very favorable to Allende although technically Christian Democrats.

Practically no progress has been made in trying to get American business to cooperate in some way so as to bring on economic chaos, GM and Ford, for example, say that they have too much inventory on t hand in Chile to take any chances and that they keep hoping that everything will work out all right. Also, the Bank of America had agreed to close its doors in Santiago but each day keeps postponing the inevitable. According to my source, we must continue to keep the pressure on business.

I was rather surprised to learn that in this man's opinion the Nixon Administration will take a very, very hard line when and if Allende is elected. As soon as expropriations take place, and providing adequate compensation is not forthcoming, he believes that all sources of American monetary help, either through aid or through the lending agencies here in Washington, will be cut off. He assures me that the President has taken at this time (better late than never, I guess) a long, hard look at the situation and is prepared to move after the fact. We had heard previously from the lower level at the State Department that Hickenloper would not be evoked. This policy has either changed or the lower echelon does not know of the change. This is the first heartening thing I have heard because with few exceptions, Nixon has paid very little attention to Latin America.

/emb

Defeat of Allende Unlikely

A congressional defeat for Allende seems unlikely at this point. The Christian Democratic candidate, Radomiro Tomic, who lost, is still backing Allende and can take a sizable segment of the P. D. C. vote with him. Reports from Santiago indicate Allende and Tomic had a pre-election agreement that neither would support Alessandri in a congressional run-off. Considering Tomic's continued unwavering support for Allende, this seems true.

Despite the pessimism, attempts being made to move Frei and/or, the military to stop Allende. Also, efforts are continuing to provoke the extreme left into a violent reaction that would produce the climate requiring military intervention.

Froi Weakness

The State Department says one factor which has paved the way for Allende is the failure of President Frei to take a strong position against Dr. Allende. They feel he could be stopped if Frei would stand firm for his country and quit trying to play the part of Hamlet, wishing to go down in history as the great democrat. Frei has not railled the Christian Democrats as is believed possible.

All past evaluations of Froi's weaknesses in a crisis are being confirmed. Worse, it has been established beyond any doubt that he has been double-dealing to preserve his own stature and image as the champion of Latin American democracy. For instance: he told some of his Ministers he would be quite willing to be removed by a military coup. This would absolve him from any involvement in a coup that would, in turn, upset Allende. Then, he turned right around and told the military chiefs that he was totally against a coup.

A group of respected political and business leaders called on Froi Sunday to call his attention to those lapses. The result of this confrontation or its basic purpose was not determined. The assumption is that by confronting Froi, the group hoped to press him into a definitive move in the one desired direction.

PERSONAL & CONFIDENTIAL

Economic Pressures

Some business sectors are encouraging economic collapse, hoping this eventually will necessitate a military take-over, or etrongthen Allesandri in the congressional run-off. Undercover efforts are being made to bring about the bankruptcy of one or two of the major savings and loan associations. This is expected to trigger a run on banks and the closure of some factories resulting in more unemployment.

The pressures resulting from economic chaos could force a major segment of the Christian Democratic party to reconsider their stand in relation to Allende in the congressional run-off vote. It would become apparent there is no confidence among the business community in Allende's future policies and that the over-all health of the nation is at stake.

More important, massive unemployment and unrest might produce enough violence to force the military to move. The success of this maneuver rests in large measure on the reaction of the extreme and violent (Castroite-Marxist) left in Allende's camp. So far he has been able to keep these elements controlled.

It's cortain that Allonde is on to this scheme. He has referred to it in recent public statements. He is also certainly aware of the government's and Frei's complicity. Last week the Finance Minister issued a possimistic report on the national economy, placing the blame on the results of the September 4 election. The statement was issued with Frei's blessings. Although it reads as an objective and realistic evaluation of economic conditions, the statement aroused the Allonde camp which severely criticized it as provocative.

An extreme rightist faction launched a series of terrorist acts Sunday, September 27 (bombings mostly), in what appeared to be an amateurish attempt to provoke the Castroite-Marxist sector into a violent backlash that would produce the conditions conducive to a military intervention. The bombings failed to arouse anything outside of swift police action which resulted in the arrest of some of the bombers. This, we are told by the most authoritative sources, was the far right's last effort to provoke the far loft in this particular manner.

Aura of Futility

As a result of all this Chilean inertia, an aura of defeat has enveloped important and influential sectors of the community, some

businessmen who seemed all gung-ho about stopping Aliende are now talking in terms of trying to make deals with him. Others have given up and are setting ready to leave the country.

Another comment by State is that the failure of the Chileans, themselves, to react strongly against Allende is making it difficult for outsiders like the U. S. and Argentina to move in and try to stop Allended openly or covertly.

The Russians

Meantime, the Russians are busy holping shore up Allonde's defenses. Since the September 4 election, the Russian Embassy staff in Santiago added twenty new members.

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Latin America

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OCT 14 1970

UMS

Telephone Operations Group

320 Park Avenue Hew York, IV.Y. 10022 Tel. (212) 752-6000

To:

Mr. J. M. Stimson

Date: October 12, 1970

From:

E. V. Freeman

Subject:

Observations on Current Situation in Chiltelco

The following are my <u>personal</u> impressions of the current situation in Chile based on conversations with various CTC and CSESAC personnel during the period September 27 to October 10.

A. POLITICAL

Almost universal agreement that Allende will be elected. His first economic target is said to be food and the methods of food distribution. Next appears to be either the foreign banks or the teephone company. In addition, people refer to a list of 150 other companies which would be eventually subject to nationalization. Almost all believe the possibility of military intervention is so remote as to be unattainable, but these same people also feel that, if there were to be any military attempt to thwart Allende, the result would be violence approaching civil war.

B. NATIONALIZATION

There was a meeting called by the Allande Communications Policy Committee (the people who prepared the "White Paper" for the Allande campaign) with CTC engineering staff held on September 25 and a subsequent meeting held October 6. The following is a summary of what I heard either from people who attended the meetings or who received the summary of events from personal contacts.

Personal and Confidential

Mr. J. M. Stycon

-2-

October 12, 1970

- The company will be nationalized in from three to six months "along the lines of Peru", except there will be no prolonged negotiation. Notice of intent to nationalize could be served almost immediately following the presidential inauguration. Buyout would be "on our terms" and the negotiations would be conducted with ITT directly.
- A nationalized company would be part of a three way communications group and would consist of the following:
 - -- International LD communications;
 - -- National LD communications (ENTEL);
 - -- CTC and other telephone companies which would retain their current individuality, i.e., no immediate attempt to consolidate all telephone companies into one organization.
- Each of the above three would remain relatively intact
 with respect to job security for their existing personnel,
 except that "some 12 to 14" of present CTC top management would be replaced.
- Apparently, control of the three entities would be exercised by a communications authority directly responsible to the Ministry of the Interior.

Comment: There is some difference of opinion as to where actual --control of the three proposed entities would rest. In addition, various sources question the authenticity of the group describing the new policy. In general, almost all of CTC Engineering and Planning groups (including the section responsible for the expansion program) have attended these meetings. It is difficult to precisely identify the degree of conmitment of individuals, but --- it is my opinion that almost all of these groups are either actively participating in the formulation of new communications policies. or are attending the meetings and passively awaiting the outcome of events. In general, with the exception of the activists and opportunists identified in Mr. Holmes' letter, I bolleve most of the people are economically motivated in that their main concern is their job security and concern that failure to participate would lead to their replacement in a new regime. Consequently, for all practical purposes any information to which the Engineering and Planning groups have normal access can be considered to be compromised.

Mr. J. M. Sti:On

-3-

Cytober 12; 1970

C. EXPANSION

The question of expansion was a subject in both the meetings held with CTC and CSESAC Engineering personnel. In general, those attending were told that expansion would continue; however, the method of financing was either not discussed or not clear. This leads credence to the opinion expressed by some that the committees are not really close to the Allende policy makers. There were no statements about the potential nationalization of the factory. In fact, it appears that the factory would remain intact under present ownership and would continue to operate utilizing piece parts from abroad for frame assembly.

D. FACTORY STATUS

In response to several of my questions directed towards determining if ITT, as a supplier, would be replaced -- possibly by Ericeson -- the answer was negative. The reasons cited for this are:

- The predominance of investment in existing ITT equipment.
- 2. The relative security of European government guaranteed loans for future material.

E. NEGOTIATIONS RESULTING FROM NATIONALIZATION

One source indicated that he believed negotiations were already in progress between ITT and the government. He did not elaborate as to whether or not he believed this was the existing Frei government or the incoming Allende group. Another strongly stressed that any future negotiations would have to be conducted with ITT directly bypassing existing CTC management.

F. STRATEGY FOR NATIONALIZATION

As stated previously, an financial negotiation would be short and "on our terms". If these cannot be successfully concluded, the company would probably be attacked in the following areas.

The quality of existing service.

Mr. J. M. Stimson

1 → •

October 12, 1970

- 2. The economic effectiveness of outside plant projects and techniques. One individual hinted broadly at construction project overruns in 1969 as being excessive and indicative of insufficient engineering personnel as well as lack of effective cost controls. The unit outside plant construction prices were also criticized.
- 3. Accounting irregularities. Apparently, the activists have been encouraging the people attending the meetings to identify past or existing "accounting irregularities". This would indicate to me both unfamiliarity with the company's accounting procedures and the role of the fiscal delegates in authorizing expenditures. One might also conclude that a request of this nature indicates a relatively low degree of collaboration on the part of the accounting and top level engineering people directly responsible for the construction program and purchases.

GENERAL OBSERVATIONS

The political climate appeared to be considerably more relaxed last week. In the previous week, uncertainty as to Allende's negative responses to the Christian Democrats created considerable tension. However, the Christian Democrat's accommodation and the agreement to introduce watered down constitutional guarantees seems to have done much to dissipate popular concern.

The politically Leftist press blamed the Right for several (about 30) apparently amateur bombing attempts; and as a result the Allende group was able to generate a mass demonstration of about \$,000 high school students to protest what they considered rightist acts of terror. The only Rightist demonstrations were those conducted by the group known as "Patria y Libertad". These were held each night last week in the plaza fronting the Moneda. The groups were small consisting of less than 100 people and generated no reaction other than indifference from the Left.

EVF: lob

C 11164

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION INTERNATIONAL HEADQUARTERS

TO

H. Hendrix

DATE

10/12/70

FROM

E. Dunnett

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT

Chilean Elections

Ned Gerrity suggested that we develop a letter to go to the <u>Times</u> regarding the interview with Allende which was carried in the <u>Sunday Times</u> of, September 27, pointing out to them that it was an excellent article but that it has all the earmarks of a second Fidel Castro takeover, which the <u>Times</u> covered so favorably on that occasion.

We have secured from the <u>Times</u> copies of various news Items referring to Fidel Castro's activities in 1957 and 1958, and have marked sections which might be useful in comparing Allende's activities to those of Fidel Castro.

Would you follow up with Jack Fitzpatrick.

Didn't get time to send the four items to WITTS. However, this can be done when I get back as there is no urgency.

I've notified the P.R. staff that the P.R. conference has been postponed until next year.

. Have reviewed Business Plans and sent reports to Gerrity with copies to you.

As far as the Chilean White Paper is concerned, I've turned all the material over to Jim Fox, but unfortunately he has been out sick all-last week but should return to the office today. Will you follow up with him and assisthim in this matter,

I'll call you from Woodstock, Vermont.

ED:pm

cc: J. Fitspatrick

Mr. J. F. Ryan

October 13, 1970

W. R. Merciem

Chila

I think we are all pretty well convinced that his. Allende will be the next treatment of Chile; and thus once in office, he will start expropristing properly without a bequate con-pensation.

Looking down the road, I think that during the next week we should come up with an action plan to determine what we will do in this office after the above becomes reality. I think that our plans must be based on a four or five present intack and that thoughts must come from Neal, Horner and accounts. Formaps New York has some blads.

ce: Lieners, E. J. Corrity, Jr. .

R. Hendelk

J. V. Horney

J. D. Neal

R. L. Schmlit

/cmb

Personal and Confidential

INTERNATIONAL TELEPHONE AND TELECRAPH CORPORATION

· INTERNATIONAL HEADQUARTERS

10 Mr. H.S. Geneen

E.J. Gerrity

MIE October 16, 1970

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT

Attached is a memorandum from Jack Neal concerning a conversation he had yesterday with our ambassador to Chile, Ed Korry.

Korry agrees that Allende would proceed to nationalize business in keeping with his promises during the campaign. However, Korry believes this may proceed slowly rather than liastily depending on the enterprises involved.

Korry says he has convinced State to cut off aid and to stop as much as published is already in the pipeline.

Korry does not believe the Russians will supply military equipment. I think that either Russia or one or its satellites will supply military equipment as soon as deemed feasible.

Korry says he will take a hard line when expropriations begin. Korry indicated the U.S. will try to live with Allende instead of trying to provoke an open rupture.

Your attention is called to the last paragraph of Neal's memorandum in which he suggests that Mr. Geneen relay any ideas on what U.S. policy toward Allende should be to the White House promptly.

cc: Messrs.

F.J. Dunleavy

J. W. Guilfoyle

T.B. Westfall

J.R. McNitt

R. L. Brittenham

H. V. Hendrix

E.R. Wallace

H.J. Aibai

Personal and Confidential

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. . DECOR . D. G. HOTOHIISAW

PERSONAL AND

Mr. W. R. Merriam

CONFIDENTIAL

October 15, 1970

FEOM:

J. D. Neal

Chile - Convolutation with Ambassador Korry

This morning, I called on the U. S. Ambassador to Chile, Edward M. Korry, who is in Washington on consultation.

Allende to Proceed Slowly

The Ambassador believes Allende, upon taking office, will proceed contiously and slowly. It will not be necessary for him to initiate new legislation because he will already have sufficient authorization to carry out most of his socialistic progrem.

The Ambression each that regardless of Allenda's many faults and identiatic helicis, he is known to be a man of his word; so it is quite certain he will carry out his compaign promises. means nationalization of everything which he thinks should lit into his Marriet scheme.

This action against U. S. private concerns will quickly bring Allende face to face with U. S. policy.

Ald Stopped

Ambassador Korry said he has reduced the amount of U. S. aid "already in the pipe-line" as much as possible. He estimates the amount to be \$30,000,000.

.. Also, there is a much larger amount for which Chile has been given letters of credit, but he didn't say how much.

The Ambassador said he had difficulty in convincing Washington the need to "cut-off" every possible assistance to Chile, but he

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Mr. W. R. Merriam October 15, 1970 Page 2 PERSONAL AND CONTIDENTIAL

insisted because he needs this as a bargaining point. This "cutoff" will be denied by State, who will say, as it has in the past, "there has been no shut down of sid to Chile; the program is under review."

Military Equipment

Ambassador Korry says there is no leverage as regards aid, because Chile will not seek it right away. He fools Allands will quickly need equipment for the military.

I said if we won't furnish that then the Russians will. The Ambassador thinks not. Too, he believes it would take too long to convert the Chilean Army from U. S. equipment to Russian!?

U. S. Hard Line

The Ambassador said that if Allende starts to expropriate American businesses, the U.S. will insist on immediate and just companies in dollars. In the event U.S. mining companies are taken, payment might be arranged in ore.

The Ambassador intimated he plans a hard line with Altende in respect to complying with obligations.

Personally, he feels Allende is going to pay his bills in order to maintain Chile's international prestige.

Ambassador Korry believes the U. S. pressure points with Allende include our source of development fund, market for Chile's products, our world prestige, etc. He seems to think he can insist that Allende restrict himself to internal democratic procedures rather than be the tool of Caetro and Russia.

Russia

With respect to Russia, Korry discounts the part the Russians have played in Allende's election.

BERTHAM FARE

Mr. W. R. Merriam October 15, 1970 Page 3

PERSONAL AND CONFIDENTIAL

Felipo Herrera

The Ambassador said he had a long talk with Herrora when he was in Santiago recently. Evidently Herrora's latter of congratulation to Allende was a mistake because Herrara told Korry that Allende told Herrora he was not acceptable as a cabinet member. Korry agreed with me that it was good to have Herrara out of the bank and that he should be replaced by some one who will tighten the bank's administration.

Tomic

Korry feels the loss of the election by Tomic started him on a downward plungs from which he will not return politically. He seems to have little or no regard for Tomic and believes his secret deal to support Allende in a congressional run-off has hurt him.

U. S. Policy ro Allende

The Ambassador said there are several alternatives of action, the main ones being to provoke Allende and cause a rupture in our relations with Chile, thus, lose all without a try.

The second would be to try to live with Allende--not appears him--take a firm line, but attempt to negotiate at every turn.

The second alternative seems to be the one the U. S. will take. The position will have to be taken soon because on the November inauguration of Allende, President Nixon must send a message of congratulation or the world will know of the rebuff.

Ambassador Korry wished to know whether Mr. Gencen would be in Now York this weekend at which time he would try to see him. I told Mr. Korry that Mr. Geneen would he at the Caps or in Mains, but that maybe he could call the Ambassador early next week.

Mr. Korry said if Mr. Geneon had any ideas about U. S. policy toward Allende's government he hoped this would be relaved to the White House immediately. He said other companies with Chilenn investments should do the same. He feels any complaints or ideas should be made now rather than after October 24. PERSONAL ALLENDED

COMME

PERSONAL AND CONTIDENTIAL INTERRATIONAL TELEPHONE AND TOLEGRA

INTEL MATIONAL ROZDOU RTERS

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E. J. Gerrity

FEOM

H. Hendrix (dictated by plione from San Jua

DATE October 16, 1970

BHEN REPLYING, PERSE QUOTE FILE

SUBJECT Chile

Unless there is a move by dissident Chilean military clements by this time next mid-week, the consensus in Santiago is that Salvador Allende will win the October 24 Congressional run-off easily and be inaugurated as President November 4.

The chance of a military coup is slim but it continues to exist -at least to this date.

A key figure in this possibility is former Brigadier General Roberto Viaux, who last October led an incurrection by members of the First Artiflery Regiment in a demand for more pay and improved working conditions. This revolt collegeed quickly. Views was summarily dismissed from the Army but overnight his cetters made him a liero to a large group of active and retired. officers and enlisted personnel.

Clearly, Viaux was gearing up to launch a move last week. Rumors that he would trigger a coup on October 9 or October 10 were rampant In Chile and spilled over into Buenos Aires, Argentina,

It is a fact that word was passed to Viaux from Washington to hold back tast week. It was felt that he was not adequately prepared, his liming was off, and he should "cool it" for a later, unspecified date. Emissarie pointed out to him that If he moved prematurely and lost, his defeat would be tantamount to a "Bay of Pigs in Chile,"

As part of the persussion to delay, Visux was given oral assurances he would receive material assistance and support from the U.S. and others for a later maneuver. It must be noted that friends of Viaux subsequently reported viaux was inclined to be a bit skeptical about only neal assurances.

Meanwhile, Viaux has been confurring with high-ranking and junior officers about taking some action to prevent Allende from becoming President. He has pledges of support from several, but unfortunately not from any key troop commanders, at least to our knowledge.

Allende obvicusly must be sware of this sort of plotting since his Unidad Popular has penetrated nearly everything in Chile. In one impromptu speech early this week he noted that Chile "was now swarming with C.I.A. agents."

A significant straw in the wind was noted this week while in Chile. The Commander of the Navy, Admiral Pernando Porta, was put on temporary leave of absence. His sudden departure from the scene was attributed unofficially to a meeting of four other admirals with Allende, with the reported consent of Admiral Porta. The meeting allegedly was arranged to pledge the Navy's support to Allende,

It also is significant that in spite of all the gossip and speculation about Viaux, no action has been taken against him. However, the Commander of the Army, General Rene Schneider, still shows no open indication of supporting Viaux.

Meanwhile, Allende and his representatives have been ardently romancing the armed forces at various levels and have continued to infiltrate the lower ranks. Many have agreed to support Allende after hearing his promises to give the Army a greater role in developing the country's infra-tructure, much like the work of a U.S. Corps of Engineers.

Allende also has promised various officers that he will not change the military organizational structure. But he has given no pledges about personnel changes. One retired officer pointed out that all Allende has to do as President is to pick his time to promote a loyal Major or Colonel to General rank and all those officers above his appointed would automatically be retired out of command. This is a tactic not uncommon in Latin America.

While Chile was bubbling with rumors last week, it is completely the opposite this week. The capital is in a bad state of depression, the general public seemingly resigned to the fact that Allendo has won and that the next order of business is to determine how to survive and live with a Marxist government. Some anti-Allendo spokesmen who show this resignation speak of starting to week toward winning a "second round."

Whatever revisions starch there was left in many anti-Allenda groups was throughly discipated by the Christian Democratic National leadership decision October 5 to support Allende in Congressional balloting. Allende took a firm, hard-line with the P.D.C. once he was certain he had at least 25 of the party's votes in his pocket to assure his election. Since then, groups of the radical and national parties that had been wavering have jumped on the Allende bandwagon. There are even indications now that a significant number of Alessandri votes will swing to Allende.

Allende this week has had a series of meetings with Chilean business leaders, seeking pledges of support. He reportedly made it clear to all visitors that he intended to move as rapidly as possible with his industrial nationalization plans, legally with the aid of a Congress he will be able to control. He has not clearly defined a manner of-compensation in his plans to nationalize the basic mining, banking, communications, both national and foreign, enterprises in Chile.

Feedback from some of these sessions indicates that Allende has become gravely concerned about the sick state of the Chilean economy. It is far worse than he first thought, according to some visitus, and it is said Allende is now giving this problem an "aganizing reappraisal," Business conditions are worsening steadily throughout Chile, unemployment is rising, and the flight of capital is continuing.

Allende also is becoming increasingly irritate with labor unions, most of which are under control of the Communist Party. The Communist Party forms a part of the Unidad Popular coalition. Several labor unions are pressing for tremend us wage increases before November 4, feeling it may be a long dry spell for raises under Marxist rule.

Allende's chief concern in this area is with the Anaconda Copper Company workers at the hugo Chuquimata mine in northern Chile. More than 5,000 of these workers have been on strike since October 1 and may well still be on strike November 4, giving him a colossal headache with his inauguration. These workers are demanding 51% increase in wages and henefits and have ignored Allend's appeals to return to work. The government, as you know, now owns 51% of Anaconda. The company management is ignoring the workers demands.

We also are experiencing similar union difficulties. Workers at Chilteleo staged an illegal strike Wednesday morning, October 14, demanding special increases in vages and cost of living bonuses. Their demands represented about 18 million escudos, which translates roughly into \$1.5 million. By the end of the day more than 3500 workers had joined the strike. Insuranch as I left late Wednesday night for Fuerto Rico, I do not know if the strike continued into Thursday. B. Holmes took the position of ignoring the workers' demands and the company advised both the union and the Frei government that the strike was totally illegal because the union agreement is valid until December 31, 1970.

Workers at ITT COM in Santiago also are pressuring for wage increases and are threatening strike action.

As I explained to E. R. Walkedby telephone, we had a low key prece party Wednesday evening in Santiago to show the new Sheraton San Cristobal hotel. About 50 newsmen, including a handful of visiting foreign correspondents, were invited for a walk-through tour of the hotel and treated to a cocktail party afterward. There were no other guests except the local Sheraton management executives and B. Holmes.

General Manager Fernando Hollman opened the San Cristobal for business Thursday morning, October 15, with no fanfare. His first gueste, a group of about 75 on an American Express tour, were expected to arrive in the hotel during Thursday.

The hotel looks great. Its interior decor is in very good taste and done exceptionally well. It will be staffed by a skeleton force of 255 employees. For the time being, only 2 of its 7 floors will be open for guests. Hoffman said he has several American Express tour groups booked into the hotel in the coming months, which will keep it afloat.

HH:pm .

cc: E. R. Wallace K. Perkins

Personal and Confidential

October 20, 1970

The withdrawal yesterday in Santiago of Jorge Alessandri from the Congressional run-off election for President of Chile marked the final step in the collapse of political resistance to the election of Salvador Allende.

In a message to his supporters in the right-wing National Party, Alessandri stated he did not wish them to vote for him in the balloting Saturday. The message also carried a personal endorsement of Allende, thus virtually assuring that Alessandri's backers will throw their votes to Allende in a show of national unity.

That Alessandri would take this action was evident last week in Santiago. His top advisers reported that he was very bitter now towards President Frei, feeling that Frei had double-crossed him in the post-election plans to win the Congressional election away from Allende. Frei did just that.

Now there is general resignation that Allendo will win easily in Congress, and most likely will be inaugurated November 4.

Except among the Allende supporters, a cloud of depression and worry has settled over Santiago and there is no outward sign of any organized opposition. Once the Christian Democrats swung to Allende at their national convention October 5, hope of stopping Allende and his Marxist-Socialist Unidad Popular evaporated quickly and the gloom took hold firmly.

In this atmosphere, many Chilcans have turned to thinking about what they can now do to survive economically and politically under Marxist rule. Thus, future announcements of deals and arrangements with Allende should not be surprising.

In spite of the forementioned, there remains in Chile a faint whisper of hope - or wishful thinking - that a military coup will be staged to prevent Allende from assuming the presidency.

- 2 -

The chance of a coup diminishes with each passing day, but some civilian and military personnel continue to look toward former Brigadier General Roberto Viaux to lead a military action against lame duck President Eduardo Frei before November 4, putting the armed forces in power and thus preventing Allende from taking office.

Viaux has considerable popular following in the lower ranks of the armed forces and some support among officers. But so far he has not won any pledges of support from officers who command troops.

Allende is continuing almost daily meetings with business, industrial and military leaders to explain his programs and seek support. His efforts have paid off. He has made it clear he plans to proceed as soon as possible with nationalization of industries that would allegedly benefit Chile, using legal means and providing compensation -- without being specific. He has convinced many military officers that he won't disturb the military structure.

Allende will inherit an economy in critical condition. He also will apparently inherit considerable labor strife and has indicated he will take a hard line with union unrest and demands for increased wages. Thus, organized labor -- mostly Communist controlled -- is pressuring now for wage and benefit improvements through wildcat strikes. The Anaconda strike and one against the Chile Telephone Company last week are examples.

The rift between Ambassador Ed Korry and his superior at the State Department has reached the point where he deals now directly with the White House and does not always share his input and instructions with State. Korry was in Washington last week for consultations and was supposed to return to Santiago during the past week-end. But he is remaining in the Washington and New York area for a short time. The word among Korry's colleagues is that Charles Meyer and his deputy, John Crimmons, are determined to get Korry out of Chile -- and out of the Department, it possible.

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In summary, there is little indication now of any remaining resistance to Allende in Chile -- apart from the forementioned long-shot military action. There are some Chileans who speak of planning now for a "second round" against Allende, but they also admit that the odds for a second round are rather slim.

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INTERNATIONAL TELEPHONE AND TELEGRAPH COMPORATION

MIERWAIIONAE DEVEN

Mr. H. S. Guneen

MIE October 20, 1970

1204 E. J. Gerrity, Jr.

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SUBJECT Chile: the Aftermath

SYSTEM CONFIDENTIAL

Assuming that Allenda will take power on November 4, barring a last-minute coup, the following broad plan of action is recommended both to protect us, as best possible, in Chile and to guard against the inevitable reactions that will occur primarily in Argentina and Brazil.

In fact, though the formal Allende takeover has not occurred the effects are already being felt in Argentina as our reports indicate and as we had assumed.

It is important that we establish the following--on the record as much as possible:

What does the State Department estimate will happen to U.S. investment in Chile?

In the event of expropriation, what will the U. S. do? Will it take a hard line or go the "soft route" followed first in Peru and now in Bolivia? Will it press for payment in dollars to the expropriated owners?

Will it invoke the Hickenlooper Amendment, and if it did would it matter? What is at stake?, Will AID funds be cut off? (Please see Jack Neal's memo concerning his conversation with Ambassador Korry who, Neal reports, says he has gotten approval to cut off aid if expropriation occurs, and who adds that aid funds in the pipeline will be cut off where possible. If the worst occurs I see no reason why aid in any form should be continued.)

What does State estimate the effect of Allende's takeover will be in the rest of Latin America?

We believe that State should be pinned down on the record in a written exchange of views so that, in effect, a formal history is set down. State has been absolutely wrong on the outcome in Chile, as other Government agencies have, but State has the fundamental responsibility for the U.S. position and it has been wrong consistently. It is our assumption that it was also, based on its record, probably be wrong about the effects of the Allendresidency.

SYSTEM CONFIDENTIAL MORE

- 2 -

October 20, 1970

With a member of the board of directors, we propose that the outlined program above be implemented with: Dr. Kiscinger, Mr. Mayer and Mr. Irwin of State, with certain other persons to be determined and, ultimately, with Secretary Rogers and the President. When these visits are carried out, we should demand that U. S. representatives of international banks take a strong stand against any loan to countries expropriating American companies or discriminating against foreign private capital.

As part of the overall action, we should ask our friends in Congressio warn the Administration that continued mistroatment of U.S. private capital will bring about a cutoff of the U.S. taxpayers' funds to international banks.

Allende has already moved to take over communications—the press, radio, TV—in Chile—in emulation of his friend Fidel Castro, of the Chinese Reds, and of the so-called proletarian dictatorships everywhere. Only El Mercurio and Radio Cooperativa Vitalicia hold out against his threats and intimidation, and once he is running the country their fate is sealed.

Freedom is dying in Chile and what it means to Latin America, and to us-to free men everywhere--is not pleasant to contemplate.

We should offer an additional action plan which would involve reduction of American diplomatic representation in such South American capitals as Santiago, Liuna, La Paz, Quito, etc. This could be on the basis of leaving each post in the hands of a Charge d'Affaires. This wouldn't reduce the coverage of developments in each of the countries, but it would be a diplomatic slap.

We should also consider communication with the press and with members of Congress as the situation develops.

Finally, we must continue to appraise our total position in Latin America -- and this should be an assigned chore for a definite group.

This is important because it is plain that events will cause the investment community and our shareholders to scrutinize our activities in Latin America closely. We see, on balance, at this time no reason for anyone to be optimistic.

Because the Chile situation is so interrelated to our overall position in Latin America, and therefore of such importance to our stockholders, I believe that you would want to meet in Washington with the highest officials to personally express our deep concorn with developments that have such serious impact.

Mr. H. S. Geneen

- 3 -

October 20, 1970

This program has been discussed with Mr. Aibel, Mr. Brittenham, Mr. Dunleavy, Mr. Guilfoyle and Mr. Merriam, as well as with Mr. Hondrix, Mr. Berrellez, Mr. Perkins and Mr. Wallace, of our Department, and they are aware of the details.

Attachment

cc: F. J. Dunleavy
R. E. Bennett
H. J. Aibel
R. L. Brittenham
J. W. Guilloyle
W. R. Merriam

E. R. Wallaco

News

October 21, 1970

Mr. John A. McCone 612 Flower Street Los Angeles, California 90017

Dear John:

Attached is a summary of the situation we discussed at length last leek. This is based on information from various sources, including the personal observations of ital liendrix and Dob Berreilez of my staff the were recently on the scene. Hendrix is now back in New York and Derreilez has returned to Buenos Aires.

We are developing a followup program as suggested during our discussions. I will bring you up to date on that in the near future.

Best wiches.

Sincerely,

Original Signed by E. J. Gerrity

cc: Mr. H.S. Geneen

bcc: Messrs. W.R. Merriam

E.R. Wallace/H. V. Hendrix

U. S. At the Crossroads - A Needed Reappraisal Of Our Latin American Policy

The ten year adverse trend of Latin American political and military unrest culminated recently in Chile where an avowed Marxist, Dr. Salvador Allende, was elected President. The free world was shocked and private foreign enterprise, already reeling from damaging treatment in Peru, Ecuador, and Bolivia, was left groping for means of protecting its investments.

Policymakers in Washington only a few months previously were using Chile as a democratic symbol. Now they are unable to predict how Dr. Allende's Marxist policies will affect the Chilean people, their democratic rights, and their economy. However, from Allende's pre-election promises, the results can be anticipated.

What has happened in Chile brings the U. S. face to face with reality in Latin America. The Chilean Marxist government justifies an immediate reappraisal of our Latin American policy.

A recent Congressional report says over cight billion dollars have been channeled to Latin America from U. S. official sources during the past seven years, with "only modest visible development gains."

The report further states "the United States stands at the crossroads with respect to its policy toward Latin America."

The U. S. government time and again during the past few years has admitted our assistance programs in Latin America have not met their objectives. Those of us who have been operating in the area for almost 100 years are intimately aware of these failures.

, The American public is appalled by the failure of the countries to help themselves; displeased with the lack of responsibility; and shocked by the unreasonableness with which U. S. tax money is regarded by those seeking it without a sincere intent of assuming the responsibility of its proper vilization.

Foreign private enterprise equally is disenchanted by the unethical political abuse of development projects which, over the past fifty years, could have made Latin America one of the most stable areas of the world. As previously stated, over eight billion dollars during the past seven years alone have been poured into Latin America.

A responsible segment within the Hemisphere is increasingly discouraged about future hopes. Radical government moves are retarding development; local capitalists are without confidence; foreign investors refuse to enter a hostile market; international banking prestige has reached a new low; therefore, the hopes of the people are shattered and essential development is stifled.

Like the Congressional report, I, too, feel we are at a crossroads because we must decide not only whether we, ourselves, are to return to fundamental principles on which this country was founded, but also whether we are to stand firm for democracy for the sake of those friends of ours in Latin America who have based their hopes and aspirations on our strength. This is not a time to deny our own heritage, but is a moment of truth when we must stand erect to be counted.

I do not visualize retaliation or vengence as a part of our policy. I am only convinced that to assist development of the Hemisphere the leaders must be assured the United States taxpayer is no longer prepared to sacrifice his hard-earned money for tasks which, as the Congressional report stated, "basically must be discharged by the Latin Americans themselves; and, even with the best of effort, many will not be accomplished in the next decade."

Our prestige is at a low cbb in Latin America -- this is a consensus. It is low because our policy has been weak and indecisive. We have not used the legislative implements, such as the Hickenlooper Amendment, to our advantage or to the benefit of democracy in the Hemisphere. We continue to grant aid in super-abundant amounts, even when our citizens are being discriminated against; we give funds when and where they cannot be absorbed; we give where it is not appreciated.

Congress feels this type of assistance should end; the people of the United States certainly agree, and our private corporations know too well it has been counterproductive.

The following quotation from the June 22, 1969, Subcommittee on Inter-American Affairs is almost prophetic in content:

"Y's want to note, however, that cooperation is a two-way street. The flow cannot come from just one direction. Our readiness to

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fashion new patterns of inter-American cooperation has to be matched by increased self-help and internal reform, by willingness to establish fair and stable rules which will attract private capital and reduce dependence on Government aid, and by other steps which will reinforce our mutual efforts and sacrifices."

U.S. Action Regarding Chile

In view of the far-reaching threats Dr. Allende made prior to his election, there should be no hesitance on the part of the United States to confront the new President on what the resultant action of the United States Government will be in the event he carries out his threats. This will not be retaliatory on our part, but will be information to Allende as to the orderly procedure which follows if his threatened action is taken.

I believe the United States should consider the following:

- I. Under Presidential instructions, have the U. S. Ambassador to Chile seek an early audience with President Allende for the purpose of informing him of U. S. poncy. The Ambassador's approach might include:
 - a. Review of our historical relationship with Chile; the democratic aspirations of our two countries; our contributions in the form of aid, soft loans, military assistance, earthquake and disaster relief; making him aware of this total figure of more than one billion, five hundred million poured into Chile during the past ten years.
 - b. Outline the vast economic and social contribution to Chile by
 U. S. private investment.
 - c. Call his attention to his own threats to these corporations, and inform him of the deep concern which resulted.
 - d. Make reference to the sudden economic fear which struck his country after the September election and advise him of similar repercussions experienced in international banking circles. Whited Press International reports the Export-Import Bank has dropped Chile to its worst-risk category. It also reports the Overseas Investment Corporation, another U. S. Government agency, is not insuring new investments in Chile.)

- e. Inform President Allende that, if his policy requires expropriation of American property, the United States expects speedy compensation in U. S. dollars or convertible foreign currency as required by international law.
- f. Inform him that in the event speedy compensation is not forthcoming there will be immediate repercussions in official and private circles. This would mean a stoppage of all loans by international banks and U. S. private banks.
- g. Continue the foregoing trend with every possible pressure which might keep Dr. Allende within bounds.
- II. As a reassertion of U. S. Latin American policy, each Hemisphere Ambassador to the U. S. -- and to the OAS -- should be called to the State Department and individually informed of our diplomatic review with Dr. Allende.
- III. Without informing President Allende, all U. S. aid funds already committed to Chile should be placed in the "under review" status in order that entry of money into Chile is temporarily stopped with a view to a permanent cut-off if necessary. This includes "funds in the pipeline" -- "letters of credit" or any such.
- IV. Consideration should be given to a reduction in U. S. diplomatic representation in certain Latin American capitals. Staffs should be reduced and the post left in the hands of a Charge' d'Affaires.

E. F. Gerrity

October 22, 1970

Hal Hendrix

Chill.

Responding to a telephone call from Allende, M. Helmits met with him yesterday afternoon to discuss the Chilistee operation.

According to Po's Berrelley, who sooks with Folmes after the macting, the meeting was very cordial. They would up appealing on a first name backs.

Hole as told Becretter that Alleade told him first to morry, he calm." It also developed that appearably Alleade is rether ill-informed about Ci litates and seemed to be unaware of the tuy-out program now in effect with CORTS.

As a result of the meating, Hulmes is preparing a priper for Allendo on Chileston's operations, its relationship to CORTO and the terms of the convenie.

Berroller noted that from what he has observed. Allende gave
Holmes the same kind of contains mresage he has given several other
leading business enecutives in Scattego recently. At Dob put it, he
had been through titls reassuring kind of remanding before, i.e. Cuba,
Don intern Reguidle, to be specific.

Allende also paid a cell parterday on Alessandri and spont fifty minutes with him. Details of the talks were not disclosed but he hoped to see the Matte brothers later today in hopes of getting a reading on what was said.

HHipm

October 22: 1970

MEMORANDUM TO:

H: S: Geneen

Mr. R. E. Bennett ...

Mr. F. J. Dunleavy

Mr. H. Perry?

Mr. H. J. Aibel Mr. R. Brittenham

Mr. L. Hamilton

SUBJECT:

RECENT EVENTS

This is to confirm the actions that have verbally been reported which have in Chile in the last two days. .. ١.

Yesterday, October 21, Benny Holmes was summoned by Allende to a meeting at his Party Headquarters. Allende requested from Benny some assistance with telegr phone service, but took the opportunity to advise Benny to take matters early. to worry that he had no intention of reacting as harshly as has been predicted many of his followers. In the discussions it became clear that Aliende had no been briefed on the current Convento provisions, allowing for Corfo to provide means of buy-out of the Company. Benny explained the current situation, the sent share of ownership of Corfo, and the increases that will occur. Explainedthat lack of funding of Corfo had slowed down their acquisition of shares and is putting together a White Paper for Allende to understand the terms and conditions;

Allende also brought up the labor problems that Benny had over the weekend. dicated he was pleased it was finally brought to a conclusion and took credit that he had intervened to resolve the situation as guickly as pessible. Told Beany he doesn't want labor problems and is attempting to keep all his union following under control.

Significantly Benny reports that Allende appeared extremely nervous and somewhat distracted and indicated that there is a rumor that Allende had been shot all all though to date has not seen anything in the press or naws modia.

The report of the shooting of the Army Commander in Chief, General Schneider, 188 been covered. General Pratt, his Deputy, will be acting Commander in Chief and as I understand it will continue the policies of Schneider which will be to uphold the Constitution and the free election. Here in New York we were advised at noon today that the Minister of Foreign Affairs, Gabriel Valdes, who enrived from Chile on Tuesday to speak at the U.N. yesterday, has been summoned back to Chila st. the command of Prosident Froi. He departs tonight, October 12.

October 22, 1970

Another source reports the rumor that some of the Chilean military are plotting to attempt to prevent Allende's election. The extent and coordination is not known but it is assumed that most top commanders will follow the Constitutional requiroments.

INTER-DEFINE ME. JANUAR

ITT WASHINGTON COPICE 1707 L STREET, N.W. WASHINGTON, D. C. 2003G

o: Mr. E. J. Gerrity, Jr.

DATE: October 22, 1970

FROM: W. R. Merriam WRM

SUBJECT: Chile

I have just met with Dr. Dan, Tim Stanley, and Jack Neal on the above subject. All of us went over in great detail possible repercussions in Chile if and when it becomes known that we are pushing the State Department along certain lines. I, personally, feel that we don't have much to lose one way or the other, unless, of course, our so-called "pressures" come back to haunt us in other Latin American countries. This I also doubt.

Awaiting Schate floor action is an Inter-American Bank appropriation amounting to \$2.9 billion. This appropriation has passed the House, has been reported out of the Schate Foreign Relations Committee, and supposedly will be taken up after the recess.

We are planning, together with some of the other members of IEPA, to approach Senators Scott and Mansfield to see if they will just "forget" to take up the bill. We could prevare statements from them which would get a message to the other Latin American countries that Chile's action is affecting them too, albeit indirectly.

Dr. Dan plans to hold a meeting of his Latin American Committee early next week to see what other pressures we can drum up to make the State Department stiffen its attitude. We are not hopeful and believe the best pressures must come from other Latin American countries. It was also suggested that we try to determine if any large European companies are in the same position we are in Chile and other Latin American countries. If so, do you think there is any possibility of trying to get them stirred up?

Following is our idea of a white paper to be presented to Assistant Secretary Meyer. Jack and I feel that perhaps it will be more effective if HSG were to talk to Meyer over the telephone rather than deliver a white paper to Meyer's desk. We can do the latter, of course, but the telephone call would be the important thing.

Late this afternoon we can discuss this, as I will be out of the office in Leesburg most of the afternoon, and Jack Neal has some pressing personal business to take care of after lunch. I will call you as soon as I return, around 4:00 or 4:30 p.m.

INTERNATIONAL NEWSCORNIES

10 My E.

E. J. Gerrity

DAIC October 22, 1970

FROM

Hal Hendrix &&

MICH REPLYING, PLEASE QUOTE FILE

CIGUECT

Chile

Personal and Confidential

Bob Berrellez called this morning from Santiago to report that shortly after 0800 this date an attempt was made on the life of General Rene Schneider, Army commander-in-chief in Chile.

General Schneider was gravely wounded by shots fired by occupants of a car described as a white-grey Falcon. One of the shots reportedly struck him in the neck.

The assassination attempt occurred as the general was leaving his home to go to his office. Three vehicles blocked the path of his car, and machinegun fire came from one.

An official communique stated that General Scincioer's condition was "delicate." He was rushed to a hospital and underwent immediate surgery. President Frei and other government officials are standing by at the hospital.

The assailants escaped and there was no immediate indication who was involved.

In recent days, however, police and army squads have been picking up extreme right-wing terrorists. Thus, the quick assumption in Santiago is that right-wing terrorists are responsible.

Observers socculate that the altempt is (1) revenge against Schneider for his refusal to support plans for a military coup against Prei to block Allende from taking office, or (2) an attempt to arouse violent reaction among the extreme left. The latter is considered unlikely because of the rigid discipline managed by the Communist Party.

Yesterday, authorities arrested a retired police Major.

Jose Cabrera, and found a small arsenal in his home. This morning's Pl Siglo, the Communist party daily in Santiago, said the capture of the Major revealed a plot to kill Allende. The main conspirators, said El Siglo, were the CIA and General Lanusse of Argentina.

Tuesday, a refired army major, Arturo Marchall, was arrested and described as a leader of a right-wing terrorist group.

In mid-morning, General Carlos Prat, chief of staff, was named interim commander in chief.

The army was put on alort and a dered to remain in barracks. All roads leading out of Santiago have been blocked. There were rumors that air line flights were cancelled, but Berrellez says that all international carriers are operating.

Shortly before noon, Allende met with Frei at the Casa Moneda (presidential palace). There was no announcement on what was discussed.

The Technical University students announced plans to stage street demonstrations this afternoon in support of "institutionality." The meaning of this was not explained in the announcements, but it is interpreted as a warning to the military to stay in their quarters and mind their own business.

Also, the CUT, the national Chilean labor confederation (dominated by the Communist Party), announced that it would go into an emergency session at 5:00 n.m. It did not indicate what the session would deal with.

We will continue to monitor the situation. Whether it will develop into any military action remains to be seen, but at this stage it seems doubtful with General Prat now in command.

Prat supported Schneider in his attitude toward Geneaul Roberto Viaux, who had attempted to spark a military coup earlier. Prat does not like Viaux personally. As far as we can determine, Prat will display the same loyalty to Free as Schneider did in the past.

HH:pm

cc: E. R. Wallace

K. Perkins

W. R. Merriam, Washington

PRIVATE AND CONFIDENTIAL

To:

Hal Hendrix, ITT HQ NY

From:

RobertB errellez - ITT LA BA - CHILTELCO

Date:

October 25, 1970 (sent by traveler)

Subject:

Chileans

1. Marxist Salvador Allende has been elected to the Chilean presidency by the congress and the first step toward the total communization of this country has been taken.

- 2. In view of important recent developments, a major question is what immediate steps the communists will take to consolidate their beachhead. A likely immediate target is Allende himself. Although a Marxist and an admirer of Castro, Allende sees himself as a Western hemisphere Tito who will forge his own utopian version of socialism: at once palatable both to Washington and Moscow.
- 3. Having just recently given 11to a personal presidential blessing, Washington will certainly arouse liberals everywhere if it turns its back on Allende. Such inconsistencies are fodder for the editorial pages.
- 4. However, if Washington just sits there and does nothing to thwart Allende, it will be inviting a sharper turn toward leftist nationalism which translates into more danger for foreign investments among other Latin American countries.
- 5. Allende does not have the large personal following that
 President Frei once enjoyed and thus has no real power base from which to
 move independently as he hopes. He lacks Castro's charisma and in a crunch
 could not as Fidel can bring the crowds out into the street for massive demonstrations of support. At least not without the acquiesence of the Communists and
 the leftist bloc that put him in power.
- 6. Thus the communists can and probably will take the measures necessary to shape Allende to their liking. A key factor here is economics.
- 7. The general consensus is that the election of Allende by congress pulled the plug from under the anemic Chilean economy. Without help from Washington, Allende will be forced to turn to the conversal Moscow. The Russians don't want snother Tito on their contact of fortify their hold, the communists will have to start tampering with the conversal, the trade unions and the military. This will invite some serious trouble for the communists.

2.

- 8. A main deterrent to this remains the armed forces. The elimination of General Rene Schneider from a key command post (chief of the armed forces) makes / llende and the communists even more vulnerable than before. General Schneider, fatally wounded in an assassination last week, has been described as favorable to Allende. He is known to have consistently blocked coup efforts by more determined general officers.
- His successor, General Carlos Prats, is described as a political moderate, a professional who'll brook no outside tampering with the armed forces.
- 10. Contrary to the general expectation, the military did not move against Allende over the weekend. It was believed that the killing of Schneider was a prelude to the coup.
- 11. A widespread belief is that the Schneider plot was handled from within the army. The job was too professional for ordinary civilians excluding those trained in flussia and Cabe. The thinking is that if the Schneider shooting was not really the prefude to the coup, it was a skillful maneuver to eliminate from the top the one man who would have permitted Allende to infiltrate and neutralize the military.

cc: E. J. Gerrity, E. R. Wallace, K. Perkins, E. Dunnett

Chile

10/29/17

Immediate Nationalization of ITT's Communication Subsidiaries
Predicted by President Allende's Committee

A group of workers identifying itself as a "Policy Orientation Committee" of the Popular Unity Front (Allende's) visited ITT's Standard Electric factory, its Chilean Telephone Company and ITT World Communications the past week to conduct lectures on communications policy in the Allende government.

The lecture at Standard Electric was taped. We are to get a copy. ITT World Communications made notes.

The Standard Electric workers were told there were no immediate plans to take over the factory, but that the government would have a bigger say in future policy and that government and workers would also have representation on the Board of Directors.

The spokesman pointed out Standard Electric would not be nationalized because its production was essential to future telephone system expansion.

At ITT World Communications, singular emphasis was made on the fact Allende would create a government of the workers. The team spokesman (not identified by name) also said both the telephone company and ITT World Communications would be nationalized with the process beginning the day Allende takes over, November 5. In response to questions, he said he did not know how long the process would require.

ITT World Communications and the Chilean Telephone Company, the spokesman said, suffered from the same malady: poor administrations and outdated equipment. If the Chilean Telephone Company declares profits of "thirty million dollars," he said, it simply means that the profits are much higher.

All this would be corrected in the future, the spokesman stressed, and "cheaper telephone service would be made available to all, not just a privileged few." A vast expansion program also would be undertaken. Less emphatically, he said that at least during the initial phase of the program salaries and other social benefits would be frozen.

All America Cables would disappear, the spokesman said, because it operates illegally (???) in Chile.

He asserted the Popular Unity Front does not wish to de away with unions since they represent the workers and the government is of the workers. (This was probably an oblique allusion to swiftly spreading apprehensions in some worker sectors that Allende plans to do away with the trade union movement, a la Castro. Allende heightened these fears when he made it known he would break the backs of the "labor asistizracy" in Chile - the mine workers).

in Chile - the mine workers).

ITT's two hotels in Santiago were not mentioned -- possibly because the Committee members were concerned with communications.

Enclose Observations

October 27, 1970

MEMORANDUM TO: Mr. E. J. Gerrity

SUBJECT:

CHILE - ALLENDE

I would suggest that we give consideration to having a cable sent to President-elect Allendy of Chile from Mr. Gensen. Contents of the cable should not be constitulatory, but along the general lines of "We plan to operate and especial Chilicities in companies with the Concession Contract and the Convenie." Reference should also be made to the fact that we will continue to favor Corio acquiring additional ownership of the shares of Chilteleo in conformance with the Convento.

While talking with Benny, when I was there ... weeks ago, he indicated that it might be possible that Allendo would want to see an ITF representative shortly after taking office. I think if we could be on record that we are willing to live by the terms and conditions of the prior Convento, we might have a basis for some beginning discussions.

What are your thoughts on this? I will discuss it with you on my return.

cc: Messrs. Geneen, Bennett, Dunleavy, Perry, Aibel

INTERMATIONAL TELEPHONE AND RELEGRAPH COMPORATION INTERNATIONAL MEADQUARTERS

10 Mr. W. R. Merriam

DATE October 29, 1970

FROM E. J. Gerrity Con

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT Chile

On Saturday, Salvador Allende, a Marxist, was elected president of Chile. He did not attain a majority for election when his countrymen balloted last month. He received about 36 per cent of the vote and thus the election was thrown into the Congress. On that basis it is said that a Marxist has for the first time anywhere been freely elected in a democracy.

Three years ago, Allende said:

"The United States is in trouble, everywhere. The wave of the future is Marxist-Leninism."

If that is so, freedom is in danger, everywhere.

Attached is a memorandum describing briefly Allende's background, indicating his thinking. He admires Red China and relies on Fidel Castro for advice. In his hands, Chile's future seems plain.

Attachment

Personal and Confidential

ESTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

10 H. S. Geneen

MOV E. J. Gerrity

SUBJECT

H.S.C. NOV 21270 October 26, 1970

WHEN REPLYING, PLEASE QUOTE FILE

Hal:

Here is a memo on Allende I am circulating.

In addition, I am attaching for you a copy of

TIME's file that was given to us confidentially.

October 26, 1970

The following material was entrusted to us in strictest confidence. It is not be be distributed except by authorization of Ned Gerrity.

The United States is in Trouble, Everywhere. The Wave of the Future is Marxist-Leninism...

Salvador Allende to this Reporter, September 1967

There may be more politicos like Salvador Allende Gossens coming in Latin America. He's a pugnacious Chilean Communist, simultaneously worldly and provincial, the intellectual product of a Latino middle class society in a Latino country which until advent of the airplane was among the most isolated in the world.

Allende's beautiful Chile is bordered on the west by millions of square miles of virtually empty ocean, on the east by one of the world's great mountain ranges, the Andes, with Mount Aconcagua towering more than 22,000 feet. Chile's northern border is a sterile, all-but-rainless desert, and bleak Patagonia on the south stares into the Antarctic.

This once-isolated land, where Southern and Northern European immigrants systematically displaced, by killing, all but a few of the fiercely independent and brave Araucana Indians (the Chilean epic poem, "La Araucana" is classic in LatAm literature), and imposed a colonial West European civilization, now has produced a fiercely independent political phenomenon: the first Marxist-Leninist in history to win a free presidential election, anywhere.

Allende's formal confirmation by the Chilean Congress on October 24 is not quite assured, but the arithmetical odds are very high that the Congress will choose him as president. In the event, he will be inaugurated on November 4.

The Congress will choose by secret ballot between Communist Allende, and conservative candidate Jorge Alessandri, himself something of an ancient Chilean tradition, the vestige of a moderate political era evaporating fast as the Andean snows this spring. By accounts of all recent visitors, Chile is having a particularly beautiful spring in this time of political dilemma. The great central valley, similar to the central valley of California in the U.S.A.,

is surging with green life. Daffodils and pussy willows, also the signs of a northern chring, are everywhere, in the report of a young Chilcan woman who has left Chile this week in self-imposed exile. Reasonably, or unreasonably, one is airaid of Allende and what may follow in train behind him. There are hundreds of Chileans, middle and upper class, more and less affluent than she, who feel the same way.

To be sure, there is a legal and constitutional alternative to Allende's victory: candidate Alessandri has promised to resign if he is elected by the Congress, thus making possible a new election in which President Frei could participate, and which would provide an alternative to Allende, the Marxist-Leninist.

President Frei, in fact, helped draft the proposed maneuver to line up Christian Democratic votes for Alessandri, with the understanding that Alessandri would resign to permit the new elections.

But Frei no longer controls his CCDD Party's Congressional votes.

He appears to have lost control in the labyrinth of Chilean politics as result of a secret agreement made three days prior to the September 4 elections, when Christian Democratic candidate Radomiro Tomic (and Frei's one-time Chilean ambassador to Washington), and Allende agreed to support each other, freeze out Alessandri in the Congress.

The large, left-wing branch of the Christian Democratic Party led by Tomic (a gassy, brash anti-Yankee) already has endorsed Allende. In addition, CCDD politico Bernardo Leighton, once a closer collaborator of Frei's -- and no Marxist, according to the sources -- bears a grudge against Frei for having fired him from a cabinet post as Minister of interior two years ago. Leighton has told Frei that he intends to deliver to Allende the votes he controls as vice president of the Christian Democratic Party.

On September 23, informed Washington observers report, a delegation from the CCDD Party met privately with Allende to present a list of "guarantees" which, if met, would induce the CCDD's to cast all of its 75 parliamentary votes for Allende.

Allende agreed to the "guarantees," subject to their ratification by the UUPP, or Union Popular (the coalition of Communist, Socialist and other leftist parties which supported Allende's presidential campaign), but he asked that the "guarantees" concerning the Chilean armed forces remain secret.

On September 30, however. Allende made a long speech formally rejecting all the guarantees on behalf of the UUPP (the Popular Union Party), claiming that his own "democratic" reputation was "sufficient safeguard" for the continuation of a pluralistic society, meaning competing political parties, freedom of the press and assembly most specifically.

The National Executive Council of the CCDD's rejected Allende's response as "incomplete and unsatisfactory" and in judgment of diplomatic observers it appeared that the anti-Allende forces among the CGDD's briefly had gained the upper hand. That would mean that the CCDD Party convention which begans its meeting last Saturday in Santiago might instruct its congressional delegates not to vote for Allende.

But Chilean political maneuvers are as convoluted as the country's coastline, and the vote situation appears to have changed in favor of Allende and his Communist front group which intends to get as big a margin as possible in the Congress to convince the world at large that Allende has massive support of the Chilean people. To get those votes, observers agree, Allende would promise the moon,

In fact, the Communist Party's strategy, heavily financed from Havana, Prague, and from Montevideo, the key Soviet disbursing window in the Southern Hemisphere, is to suggest that there virtually is no opposition to Allende's formal reconfirmation as president.

The Chilean Communist Party (Muscovite) -- tail which waggeth the dog in the UUPP -- publicly favored the "guarantees", which were opposed by the Socialist Party, the Chinese-wired wing of the UUPP. Nevertheless, the Muscovite Communists prevailed, and the Socialists agreed to support the "guarantees."

On October 2, just 16 hours before the scheduled opening of the Christian Democrats' special meeting, Allende's UUPP issued a statement offering to negotiate the Christian Democrats' "demands" for the "guarantees."

In judgment of DOS observers, this statement by the UUPP acutally strengthened leftist Christian Democrat Tomic and his ally in the party, foreign minister Gabriel Valdes (a strong anti-Yankee himself). The CCDD's immediately split over Allendo's offer to negotiate with some moderate members saying, in effect, "never," and more leftist members arguing for "negotiations" under Allendo's terms, to draw up "guarantees" for the preservation of democracy -- somehow -- under Allendo's Communist regime.

-4-

Both Tomic and Valdes secretly (swear the sources) have been offered high posts in the Allende Administration, and both men have told Allende they would accept.

Result of this particular maneuver, splitting the CCDD's: on the night of October 4 (Sunday), they voted 271 to 101 to support Allende on condition that "constitutional guarantees" be arranged, somehow, before the October 24 vote. Allende, in short, swapped a verbal pledge of "guarantees" for votes.

In summary, the left-wing Popular Union Party, currently dominated by the Muscovite branch members, swiftly and effectively imposed its will on the party's leftist radicals, or Socialists, in dickering for needed votes and support of the Christian Democrats.

It is a Marvelous Thought! Chile Could be the Crucible for a Socialist Experiment of Grand Design...

Rudomiro Tomic, Chilean presidential candidate, and former ambassador to Washington, in an interview with <u>Time Magazine</u> on his departure from the U.S.

Two months ago the U,S. National Security Council heard an estimate of the developing electoral situation in Chile. Substance of the estimate and analysis: If Allende won the presidential election, the Communist takeover of power would move at all speed. But if Tomic were the winner, the Chilean Communists would move only slowly, over months, to take power behind the scenes.

(<u>Time</u>'s Washington Bureau memo reported this estimate of the Chilean situation.)

Allonde indeed won the elections on September 4, and indeed the Chilean Communists have moved at all speed.

In effect, the de facto consolidation of power under Allende already is much farther advanced than press reports either inside or outside of Chile show.

The Chilean apparatchik, formed mainly of traditional, old-time national Communists, moved first against the press.

One senior diplomatic observer with East European experience reported that the tactics used matched those employed by the Soviets in Czechoslovakia in 1948.

That is: the Chilcan Communists -- to be sure a previously most amiable cadre of Chilcan intellectuals comfortably embedded in the country's drawing rooms, newspaper backshops, news and editorial rooms, and in the national journalism schools -- suddenly emerged in command.

They visited key radio and television stations demanding that station newsrooms be placed under their management, and in a word, browbeat journalists
and broadcasters who refused to support Allende. The once amiable old colleagues displayed suddenly un-Chilean streaks of meaness. They threatened
violence to their old friends.

Their harsh tactics worked, by and large, with main exception of the 143-year-old Mercurio, a conservative paper, and consistent opponent of Allende and also of the Chilean Communist Party. In the new rapidly fading familiar world of Chile, El Mercurio, for all its conservatism, was the equivalent of The New York Times itself in Chilean journalism. In a word, it was, and still is, the best edited, most thoughtful and again, for all its conservatism, the most conscientious, courageous journal in the land.

The polite Chilean Communist goons within hours forced most of the country's public communications outlets -- radio, TV and newspapers, periodicals -- to make an accommodation with the Allende forces, even if they were not under direct Communist control, like the University of Chile's TV channel 9, and Catholic University channel 13. Intimidated coerced, out-maneuvered, the publishers, editors and newsmen for the most part crumbled.

The Communist intimidation effort came off so quickly and so smoothly, in judgment of experienced observers of these phenomena, that the "rough stuff" -- i.e., threats of physical violence, etc. -- was ordered stopped as unnecessary.

In place of overt threats, the Communist newsroom bosses have begun organizing "workers cooperatives" within the communications media,

The tactics used -- the "rough stuff", followed by tender treatment and concern -- have caused some conflict and concern within Allende's Popular Union Front, because (apparently, say the sources) the militant Socialist Party is jealous of the Muscovite (Allende's own bunch) Communist successes in obtaining control of key organizations and posts in universities, media, factories and other public sectors.

The Socialists in fact have suggested that they be given the front, publicly prominent positions for appearances sake, so that the Muscovite Communists can remain behind scenes.

In turn, the Allende Communists (the Muscovite traditionalists of Chile), also are irritated by the Socialists insinuations that their (the Muscovites) close connections with Moscow tend to tarnish the Chilean image of the Communist Party as a home-grown purely nationalist article.

The Muscovite followers actually have made a big effort to obscure or play down their Soviet ties. Party Secretary General Luis Corvalan went all the way to Montevideo recently, ostensibly as the Chilean delegate to the Uruguayan Communist anniversary party, in order to meet his Soviet contacts.

Also, under the new press order taking shape in Chile: the Communist press no longer reports the arrival of Seviet officials or technicians, although this news would have been given top play as recently as September 3 -- the day before Allendo "won" the election.

Previously, we packeted some pertinent samples of contemporary Chilean journalism, covering the available spectrum, from El Mercurio editorials, to El Siglo material, where Allende unvaryingly is referred to as "president elect," with condidate Tomic depicted, as he correctly should, as an ardent supporter of Allende's. Those packeted samples ring with all the old phrases and warnings which first emerged in this hemisphere in Cuba's controlled Communist press, with Castro's arrival in Havana, 12 years ago next January.

El Mercurio, in effect, symbolizes what's left of a very long Chilean tradition of freedom of the press, or freedom of thought in Latin America. In Chile, by and large, that tradition has run for a century and a half. Very senior observers, men and women with long experience in Latin America at DOS, newspapermen and editors from the Sip, or Iapa -- The Sociedad Inter-Americana de Prensa, or Inter-American Press Association -- uniformly express their concern, even anguish, about what has happened so swiftly in Chile. Of course, the story has not been reported inside Chile. Amazingly, the story also hardly has been reported abroad.

El Mercurio can survive for a while, although Allende never, never has made any bones about his intent to seize the newspaper and finish its independence of thought and expression. The Edwards family which owns El Mercurio is a particularly vulnerable target for Allende and the Communists, because the family interests range far beyond the newspaper to banks and Chilcan industrial plants. El Mercurio symbolizes a bourgeois target for Allende's Communist backers, as well.

Suddenly, El Mercurio has been left alone, solitary on the political right, isolated from rest of the Chilean press which has capitulated, or has been successfully intimidated by the Chilean Communist Party.

"We've been isolated, as believers in democarcy," said an El Morcurio man.

Please do not attribute, and please do not relay to Chile on the wire: that remark from Augustin Edwards, El Mercurio's owner and publisher. Also FYI only, he flew to Buenos Aires last night, where he will decide whether to enter Chile again, or not. I doubt if he will. He already is making plans to live in the NY area, and arranging for shipment of a plane-load of household goods to the U.S.

'El Mercurio is like a candle in a bottle. It will give light for a while, and then will be smothered, leaving only a little black smoke. How long it lasts depends on how big the bottle the Communists permit..." said a Chilean observer.

Of Course, During a Time of Revolutionary Social Change, the Government Cannon Permit Criticism From the Press...

Tomic, in conversation with Time, 1969

Allende appears to be trying to quiet the fears generated by the "rough stuff" tactics applied by his men immediately after the election.

He said (see New York Times page one, Sunday interview) that his government will not be totalitarian, explaining to The Times correspondent that he does not consider Communism to be totalitarian. That almost certainly accurate quotation from Allende may give you true insight into exactly how Chilean Communists really think. Marx, Lenin, Engels, Castro, Mao, Ho, and all the rest have luminous and fuzzy images in Chilean drawing rooms and university classrooms. We've been there.

Currently, Allende's emissaries are offering even the conservative Alessandristas jobs to use their technical and managerial talents in the Allende administration. The Allende men also are offering "improved sccurity" and higher pay to the military -- an institution torn between its long tradition of non-intervention in Chilean politics, and its fears of the Communists. (Frei, using only the force of words, put down a military minirebellion last year in a remote garrison feeling sorry for itself and the low pay of Chilean soldiers).

Perhaps the most disturbing of all the post-election developments to Chileans concerned with representative democracy has been the mushroom growth of "popular unity committees," of which there were about 8,000 actively supporting Allende at time of the election in September. These PUC groups have grown to about 12,000 in a month, under direction of the Chilean Communist Party.

(See the Novitsky article in The Times, inside, October 4).

PUC tactics vary, but consider the action at Santiago's Catholic University last month: on September 25, the committees began circulating a petition in each university faculty calling upon students and administrative personnel to sign documents recognizing Allende as de facto president, and placing individual university faculties under Popular Union Party control.

Teachers and administrative officials who refused to sign were told they would be fired when Allende "takes office..."

In June, earlier this year, the "committees" conducted a similar operation which resulted in the firing of all Santiago University teachers inconlimiting (a standard practice in Chile) at non-Marxist newspapers and radio TV stations.

And, last week the medical interns working under contract to the Communist dominated ministry of public health in Santiago found in their new contracts a clause which obligates them to devote at least one hour daily for "lectures not related to their professional interests" -- Communist political indoctrination.

I Wouldn't Dare Have Me Dicture Taken in One of LIPL. Cowboy Hats at IJis Ranche. That Would Gost Me the Presidential Election in Chile...

Ex-ambassador Tomic, To Time, 1968

There is considerable -- and mostly unpublicized -- Chilean opposition to the Allende takeover. A women's lib type group called "Patria y Libertad" has been sponsoring anti-Allende rallies and demonstrations. Last Friday, there was a women's "March of Silence" in Santiago, at least 4,000 strong.

Professional (U.S.) observers of the march advised that the women were attacked by young men from the Allende front party. Popular Union, with rocks and razor blades. The fighting was serious enough to result in a dozen arrests, and some injuries.

The same day (October 2) the Christian Democrats' national department of labor issued a statement rejecting any CCDD support of Allende, and Congressman Pedra Araya Ortiz announced that he would not vote for Allende, and protested what he called Popular Union Party acts of revenge" against CCDD party members in his (Antofagasta) district.

Again, amazingly, these opposition activities against Allende virtually have not been reported even inside Chile, where the press -- with exception of the daily El Mercurio -- already has been intimidated by the hard-riding Allende Communist partisans, preparing Chileans for the Allende takeover.

Page one, banner-type play, however, has been accorded comment from former U.S. ambassador to Chile Ralph Dungan (now at Princeton, in charge of a New Jersey state educational program) in effect urging that the U.S. extend sympathetic understanding to the new Chilean revolution. (Dungan's comments appeared in a Washington Post letter to the editor last fortnight)

The (already) mainly Communist controlled press of Chile printed excerpts from Dungan to give the impression that Allende's victory was "welcomed" abroad, and that his regime would be viewed in the U.S. as an interesting "Socialist" experiment.

Former U.S. Ambassador to the Organization of American States Sol Linowitz (I believe he was one of the most able and best informed of men who've held that post in recent years) told <u>Time</u> Magazine this week: "I think Allende will be confirmed as President of Chile, and furthermore, I think he should be confirmed. The U.S. role in this entirely Chilean affair is to keep hands off -- entirely," said Linowits.

"Allende was freely elected by the people of Chile, and a time of testing now comes in Chile. I say let the people of Chile go ahead and install him. That is the only possible role for the U.S. -- let the people of Chile work their will," said Linowitz.

"Surely the U.S. role is to sit back and see how he conducts himself in office. He knows he's got to have support not only in Chile, but elsewhere in the hemisphere. It may be that the 'horror of anticipation' which has some Chileans upset and concerned, may be exaggerated and the rhetoric of the campaign will be forgotten later on.

"What is important is how he will conduct himself (Chile) in the O.A.S. I would assume that there may be a problem now with Chile and the Rio Defense Treaty (the key hemisphere mutual defense pact), but the U.S. shouldn't anticipate problems," said Linowitz.

"Chile is still Chile, and restraint is needed in the U.S. at this time, as well as in Chile.

"If we allow the situation to make us nervous, with Allende's election a sign of armageddon, then we'll be in for serious problems.

"Chile is in this hemisphere, and in the final analysis we should be no more disturbed about him in Chile than the military dictatorships of Argentina and Brazil. What kind of double standard do we have?" said Linowitz.

Linowitz, in addition to some DOS policy planners, even conceives that "something useful" could come out of the Chilean situation, possibly a face-saving (all-around) diplomatic modus operandi to bring Cuba back into the hemisphere family.

"If we keep our cool, it is possible that Allende could be a way to build a bridge to Cuba, provided Castro agreed to cease and desist his subversive activities in the hemisphere. Allende could play a useful role, just possible,", said Linowitz, "provided we don't set about ostracizing him..."

"I am pleased, so far, at the signs of restraint by the U.S. of course, there is great concern about the nationalization of private property, seizures, and so on. But I think the best course for the U.S. is not to rock the boat, respect the decision of the Chilean people, and hope that out of this will come a mature system, with democratic rights preserved," said Linowitz.

One of the U.S. intelligence community's top directors (name on fence request) provided Time magazine today with the following information:

Fidel Castro in Cuba and Allende in Chile have been in regular, constant contact. Allende's Popular Union men have visited Havaña regularly for debricfings, and to obtain money, in dollars from the Russians, who also have provided Allende's men with money in Montevideo. (Luis Corvalan on his various trips).

Castro sent Allende the following advice, via his (Allende's) sister Beatriz, a Chilean "Socialist" who has received subversion and guerrilla training in Cuba.

Beatriz was in Havana last month, shortly after the September 4 presidential elections, to deliver an invitation to Castro to attend her brother's November 4 inauguration.

She carried this reply to Allende:

- 1) Castro would prefer not to go to the inauguration on grounds that the visit needlessly would arouse world suspicions, with resultant adverse effect.
- 2) Getting his own experience with the Cuban "revolution," Castro advised Allende to try to keep his skilled technicians in the country, with persuasion, or by administrative measures if necessary. "Administrative measures" already are applicable in Chile, boiling down to a Chilean internal revenue notice that a man's tax filings are under study, meaning that he may not leave the country until he has been cleared.
- 3) Direct all copper sales to the dollar market, keeping them open as long as possible, and use available funds (Chile has approximately \$600 million in reserves under Frei, acquired through sharing of copper sales and profits under the 'Chileanization' program). Castro suggested that Allende would want to build his militia defenses against possible threats from his neighbors.
- 4) "Do not act too revolutionary," on grounds that you (Allende) have been a revolutionary for 38 years, and need not prove those qualifications. "Do not act too hastily,", Castro advised, "giving the counter-revolutionaries a pretext to attack you and upset your economy needlessly..."
- 5) Try to maintain good relations with the Chilean military, giving them no pretext to attempt to overthrow the government, until you have time to consolidate your popular support and reduce resistance of the counter-revolutionary groups.

Of all the items of Castro's advisory, probably the most important is that last point, dealing with the military, in opinion of informed observers of the Chilean scene.

The military, bluntly, at this moment is the only institution in Chile that can stand between Allende, his Unidad Popular (Popular Unity) Communist front and the assumption of political power on November 4.

The Chilean armed military is one of the most apolitical military entities in Latin America. The military has not tried an armed coup since 1932. Allende already -- even prior to Castro's message -- was doing his best to assuage comfort, pacify and full the senior officers into accepting his regime without opposition.

Allende, in short, has been using velvet gloves in his dealings with the military. He is having his Socialist and radical followers do most of the consulting with the brass, with the (formal) Muscovite Communist Party (Allende's own) staying carefully in the background, at arm's length.

Meanwhile, Allende's already smoothly operating propanganda volunteers are floating rumors that he intends to retain the present army, navy and air force commanders during the first year of his government.

Reasons for that is that once a new commander-in-chief is named, all officers senior to him are retired, automatically.

Keeping the lulling senior military men in a state of tranquility of or complacency, therefore, is of highest priority to Allende and his popular unity men are downplaying its Marxist aura in every conceivable way, around the military.

The senior observers of Chilean events emphasize that it is extremely unlikely that Allende will not appoint his own military commanders as quickly as he feels secure in office.

The sources say the Unidad Popular already has drawn up individual political evaluations of the entire officer class in terms of their reliability from Allende's -- and the Communists' -- point of view.

An estimate among hemisphere military men is that Allende's probable timetable for house-cleaning the (generally) conservative military is about three years. Some officers are certain to be isolated early in Allende's regime by means of transfer to overseas or nonvital posts.

In short, Allende currently is treating the Chilean military with considerable apparent diffidence, at least until he has established firm control over the national police force, Chile's well-trained "carabineros".

Indeed, the Chilean military is aware, acutely, of the Allende strategy, but is struggling with its conscience and -- to say again, because this is a very important note -- the military's historic role of nonintervention and its professional role as guarantor of Chilean democratic institutions.

Chile is a victim of Communist Russian roulette. Our democracy gave them one chance at power every six years. Now they've nor, and they'll never give democracy another chance.

-- A Hemisphere diplomatic senior observer.

That comment happens also to reflect comment by a White House source who may not be quoted directly. You have copy of text of that White House background briefing.

In substance, the White House source expressed doubt that if Allende wins (that is, is confirmed on October 24) there may not be another free election in Chile.

The Allende takeover, with all that it means for Chile and the rest of the Hemisphere including the U.S.A., would present massive problems in the White House's judgment, specifically for pro-U.S. forces in Latin America, and also for rest of LatAm. The White House seer also acknowledged that there appears to be minimal opportunity for the U.S. to use its influence in the Chilean s ation.

But as we dig into this story, we find specific, clear signs that the Nixon Administration -- that is, the President himself -- views the developing situation in Chile with grave personal concern.

Bluntly, but not rashly, this reporter would estimate that if Chile were somewhere close at hand, in Central America or the Caribbean, the U.S. would apply great pressure to prevent Allende from taking office. I acknowledge that this thought is in a greatly discredited traditional U.S. response in Latin America, used most recently in 1965, in the Dominican Republic.

I believe the Chilean military rather obviously holds the key to immediate future events in Chile. In a wild scenario, conceivably, the military could oust Frei, put him aboard a plane outbound for the U.S. or Europe, and preemptively seize the government to prevent Allende's taking office. The military, of course, would promise to hold early, free elections.

I am not reporting that such a plot is in the wind. I expect that it could be, and if it occurs to our Chilean correspondent, fine, but do not -- repeat do not -- put this report on the telex to him, or hint at this Washington observation.

The U.S. evaluators concerned, both civilian and military, also are deeply concerned that a preemptive coup would result in an explosion of violence and civil war. That violence and war also would come if Allende somehow loses

the Congressional vote. Allende, his front group, and the shock troops (Cuben trained, many of them) of the Castroite Revolutionary Movement of the Left (MIR, and isn't mir the Russian word for peace?), have made it clear in Chile that they will fight for "total victory" if necessary, and that means arson and bloodshed.

A Washington estimate is that the Chilean military have a limited capability in dealing with organized civilian violence, even with certain outside assistance -- say, from the greatly concerned Argentine military,

If, after a military coup, and a bloody civil war in Chile, Allende's Communists win anyway, even the least suggested trace of U.S. involvement or support of a coup plainly would have catastrophic effects on our relations and prestige in Latin America.

Nevertheless, I believe -- and again must caution you not to relay this intelligence in any way to Chile, where Allende's men now monitor international communications -- that Ambassador Korry may be engaged on Nixon's instructions to do all possible to prevent Allende from taking power.

That White House briefing paper may suggest to you the depth of presidential feeling about the Chilean situation. Nixon, I believe, among other reaons, including the establishment of a Hemisphere Communist axis from Havana to Santiago, may feel vulnerable already to 1972 election-year charges that the Communists scored a major gain in the Hemisphere during his Administration.

The U. S. frankly looks bad enough in the Hemisphere at this moment, under the Nixon Administration's "low profile" operations. For about 25 years, since end of World War II, the U.S. has ignored Latin America anyway, with the brief, hopeful interlude of the Kennedy-inspired Alianza para el Progreso, now petered out.

If U.S. fingerprints, visible or invisible, are found (or even successfully invented by the adroit Communist propagandists) in a Chilean coup or maneuver intended to prevent Allende from taking office, surely there will be hell to pay in this Hemisphere, and also in the U.S. Congress.

New Dispatch:

We were struck by those rather attractive photos of Allende printed in the Times Sunday page one interview. They make him look much, much younger and attractive than he is.

He's a short, red-faced, tough talking curly haired little guy, given to intellectual arrogance and supreme contempt, specifically when speaking about the U.S.A.

He has proved a highly effective, long-range tool of Soviet via pacifica strategy in Latin America. The Soviets "lucked" onto Fidel Castro, but they've been greasing and preparing Allende for decades, and now in Allende they have impressive evidence that the Soviet via pacifica can work, that a free country can be seduced into Communism of its own will.

Allende comes from an honored family in Chile, many of them medical doctors. Allende received a medical degree from U. of Chile in 1933, but -- like Che Guevara -- he limited his medical activities, and turned to politics.

In school during the 1930's, he was anti-government, whatever the regime. He was influenced deeply by Marxist writings, and assisted in the establishment of the Socialist Party in 1933, signifying a merger of various Chilean Marxist groups. He got on-the Socialist Party escalator, and moved up gradually to Senator from Valdivia province in 1945.

In 1949, he was persuaded by the Communists to become a member of the "Executive Committee of the Committee for World Peace" which had been organized by the Chilean Communist Party prior to a "peace conference" which was to be held in Mexico.

He knows propaganda, and press control (that's already been demonstrated effectively in the last month), and in 1951 from somewhere obtained money (about \$2000 U.S. a month) to subsidize two Communist newspapers in Chile, Vencerán and Independencia.

It was not until 1954, however, that Allende openly manifested Communist Party sympathies, specifically as chief of a delegation invited to the Chilean-Soviet Cultural Institute to tour the USSR, and Czechoslovakia. At that time, Allende was also vice president of the Communist front, "Agrupación Chilena de Ayuda a la Democracia Española."

That same year (1954), Allende spent six months in Communist China. He returned again in 1960, and in 1963 sent his wife and daughter there for an extended visit. He also arranged China visits for certain Chilean newsmen.

He was, as you are aware, an early-on advocate of Fidel Castro, and there were rumors late as last year that Allende was attracted to the idea of a Castro-type "Revolution in the Andes," in Chile, but yielded to party discipline and concentrated on the via pacifica approach.

Allende, as the Communiste' via prefifica front man, has been virtually a perennial presidential candidate, winning on this, the fourth try.

His reclection to the Chilean Senate in 1961 set the stage for his previous bid in 1964. In that presidential election (1964), Allende ran against Christian Democrat Eduardo Frei, with heavy financial assistance from Havana, and lost, stunningly.

To be sure, the U.S. discreetly, or so it imagined, supported Frei, 1) because U.S. policy in the Hemisphere favored the so-called Democratic Left, and Frei was the CCDD, or Christian Democratic candidate, and 2) the U.S. was aware of the Havana financing for Allende, and aimed at keeping a Havana-wired, marxist candidate out of the Chilean presidency.

The U.S. poured money into Chile in 1964, at rate of \$127.4 million for AID projects alone, followed in 1965 by \$130 million, in 1966, by \$107 million, and in 1967, \$284 million. About that time, the U.S. congress (former Senator Gruening's famed study of U.S. aid in Chile) learned what was going on, reported in effect that the U.S. had all but drowned Chile in AID dollars, increasing quantities of which were turning up in summer weekend homes for Chilean bankers and their friends.

The U.S. government sponsored and paid for special political polls, analyzed Frei's campaign, gave him extraordinary consolation and convort, all under the friendly aegis of then U.S. ambassador Ralph Dungan.

By way of contrast in 1970, with the odds running heavily against the Christian Democrats in a field split three ways between the ancient conservative Allessandri, and two anti-U.S. leftists, Communist Allende, and Communist-leaning Tomic, the U.S. kept its nose (financial, and otherwise) out of the Chilean presidential elections, with the Department of State arguing that Tomic "probably" would win, "because it is unthinkable that Chile would go Communist under Allende..." (direct quote from a DOS officer in charge of latino affairs).

The DOS political experts erred egregiously in underestimating Allende. In fact, the experts figured Alessandri as a front runner, and recommended "discrect" U.S. support of Tomic, as something of a manageable leftist, in the basic tradition of the former Hemisphere non-Communist left.

- 20-

Facts are that the Hemisphere's non-Communist leftists are in obsolercone, or wholly out of power. Peru's old Victor Rul Haya de la Torre, who may be grandfather of the whole movement, is regarded as a conservative today, and his ownAPRA party is split, with a radical left wing spinning off into orbit with the Communists.

Betancourt of Venezuela may go down in history of the movement as the strongest and most significant leader of them all. He is no longer president of Venezuela, but still exercises certain influence on that government. Betancourt's major contribution may be that he dealt forthrightly with his military, a hidebound caste, and inspired both the Venezuelan military and ordinary people to stand up against the five-year campaign of murder, subversion and arson personally directed against Venezuela by Fidel Castro. It's all in the history books, and a good part of the story in Time, but there is no democratic leftist left in Latin America today, like Betancourt.

One of his old friends and revolutionary associates, Jose Figueres, is president of Costa Rica again, currently, but Figueres has become a conservative in finances, although still a liberal in politics, and a strong anti-Castro element in Central America. But even Figueres has invited a Soviet trade delegation to visit Costa Rica to swap Communist finished goods for Costa Rican coffee.

The JFK administration in a sense "discovered" the democratic left. JFK relied on its senior members for latino guidance in Hemisphere emergencies (Cuban missile crisis, Bay of Pigs, etc.), and LBJ himself followed suit, conferring daily with Figueres and Puerto Rico's Muñoz Marín (LBJ brought them to Washington) during the painful days of the 1965 U.S. intervention in the Dominican Republic. In effect, the Democratic Left (Figueres and MM) supported that intervention as pragmatically necessary to keep Castro out of the Dominican Republic.

Democratic Leftist Frei in Chile was not consulted by the U.S. in that intervention, but his anti-Yankee foreign minister, Valdes, attacked the U.S. savagely. (Valdes is now negotiating with Allende for a cabinet post in his Communist regime). Frei tried vainly to silence Valdes.

Frei took office in Chile in 1964 on a surge of good feeling and a splendid U.S. press, plus friendly U.S. biographers touting him as the "last best hope" for democracy in Latin America. But fate handled Frei harshly.

First it was a series of disastrous floods, then a major earthquake, then long-lasting drought which buckled the national economy. He did exercise Chilcan nationalism, and by process of friendly persuasion and minimum intimidation, got the major U.S. copper companies to agree to "Chilcanization" of national copper production and processing. Eventually, Frei intended that the Chilcan Government would get an even larger share

of the copper returns, and the U.S. comminies were willing -- on a long-term basis, in practical acknowledgeness that nationalism was on the rise in Chile, and that the only way to remain in business would be in full partnership with the Chilean government.

Now, gradual nationalization is out the window. Allende is expected to move swiftly to seize and nationalize all Chilean copper production.

Allende is not a well man, regardless of those vigorous-looking handsome New York Times pictures. He has kidney trouble, has had hepatitis twice, and has had two minor strokes (right side of his face is partially paralyzed) and a heart attack. The hepatitis left him with chronic liver problems, and he is a heavy boozer, which aggravates them.

Despite all that Chilean Communist Party propaganda about him being a man of the masses, he happens to be a symbol of sartorial splendor (English woolens), and refined capitalistic tastes. He has a full wardrobe of fancy suits, a yacht, and beautiful summer home in the beach resort of Algarrobo -- all the perks of the upper class, bourgeois Chilean life which he now plans to change for the good of the people, and Allende.

"I don't know what I did wrong, now that the Government is about to be colivered to the Communists,"

-- Chile's President Frei, last week, in farewell conversation with an old friend.

Perhaps harshly, many of Frei's old friends and political contemporaries view him as a Chilean Hamlet, wringing his hands.

"We Chileans have not matured. What is happening in Chile is our own fault. We have no guts," said the close friend of Frei. "If we didn't have guts enough to stop what is happening, then we deserve it. We can't come crying to the U.S., or to anybody else. We've been compromising. We've put nothing on the line. We've said, "It won't happen here,' and now it's happening. This could be the end of the road for us in Chile, after 150 years of democracy, it all goes biah, we've never had a Rojas Pinilla, a Perón. We've gone on our silly little way, and being proud that we were different. Now we're in the cauldron of the cold war, the first free country in the world to vote itself into Communism," said Frei's old friend.

Fact is that perhaps Chile and Chileans never recognized the true character of the Communist snare, net and noose which is about to descend.

In a brilliant examination of Chile in 1960, Frederick Pike and Donald Bray of U. of Notre Dame wrote in "A Vista of Catastrophe: The Future of U.S.-Chilean relations":

"In the U.S. we recognize in Communism a dreadful threat to the enjoyment of the privileges, the intellectual and cultural developments and freedom which our high material standard of living has made possible. Chilean advocates of reform, on the other hand, see in Communism one of the possible means of achieving the physical prosperity which is the necessary point of departure for the fuller total life they ultimately envision for their country..."

There you may have the answer to specific questions concerning how come the Chileans have voted themselves into their current situation.

The Soviet effort, over the long years, involved patience and timing, and it worked,

The Soviets officially have 28 embassy personnel, in fact have 48 people working in Chile, stressing heavily cultural relations, literary and scientific displays, and the Moscow circus.

The Chilean Orthodox Communist Party itself, getting its geodenice from the Soviet Embardy, played (and to still playing) the stranget or pacifics line. The party has 40,000 members, the largest in Latero, and the best organized. (CIA says, FYI).

Preparatory steps for the Communist takeover actually are underway, Allende is taking Castro's advice seriously. He and his associates are pleading now with the engineers, the doctors, dentists and others not to leave. They also are trying to keep the Chilean army chiefs as calm as possible. The radio TV and press, with exception of El Mercurio(printing thin papers, ten to 20 pages, down from its regular 64 page editions at this springtime in Chile), and radio 'Cooperativa Vitalicia' (one of the 20-odd stations in Santiago) already are intimidated, or coerced into support of Allende.

The Chilcan military, confused and vacillating about what to do, hardly was cheered by what happened in Bolivia yesterday, when a leftist group of officers, supported by students and miners, defeated a pro-U.S. group.

The sources estimate that the Bolivian military "Lestists" are of a stripe similar to the Peruvian military now established as dictators in Lima, that is, Lestist Nationalist, anti-U.S. and not necessarily Communist. What the U.S. anticipates will emerge in Bolivia will parallel what has emerged already in Poru, and what will emerge in Chile will be Communism.

"What nobody can predict at this moment is whether the major influence on Allende will come from Castro in Havana, or from Moscow. He's getting advice from both sources," said a U.S. observer. (CIA analyst in charge).

Former Chilean Ambassador to the OAS Manuel Trucco, now political adviser to the OAS CIAP Council for the Alianza para el Progreso, returned this week after two months in Chile. He is a 30-year friend of Frei's and the unattributable source of that Frei remark which leads this dispatch. All of Trucco's comments are unattributable, in fact, but usable as coming from a diplomatic observer, etc.

"I am deeply concerned. I saw the takeover of radio, the press and TV. Freedom of public communications, almost totally, has been extinguished in Santiago. Listeners and readers now hear, see and read only the Allende line, or Castro material everywhere except in El Mercurio and radio "Cooperativa Vitalicia."

"Channel nine, the University of Chile's TV station is on 14 hours a day, and starting at ten pm each night, it's only Castro films, speeches and interviews provided by the Cuban Embassy from Havana.

"The day after the election, on Sept. 5, two Allendista representatives called on each of the radio stations, and 'invited' their 'cooperation' to keep a 'balanced view of the news,' which would be taken into consideration by the Allende government later on. Every one of the stations capitulated, with exception of 'Cooperativa Vitalicia.' " said the observer.

"It is a grave situation. Freedom of expression has evaporated in Chile," said the observer.

Also: (and confirmed by CIA, FYI):

- 1) The terrorist MIR group (Maoist-Guevara line) has seized a building at the Universidad Técnico del Estado in Santiago, converted it into an arsenal for production of dynamite bomb (short fused, hand grenades), and molotov cocktails.
- 2) Spanish speaking Czecha and also Hungarian "advisers" also have arrived in Santiago to take up residence.

There is an arrest order out for the chief of MIR one Victor Toro, but President Frei has not permitted its implementation for fear of an outbreak of terror, including kidnappings of diplomats, or others.

"Chile appears to be paralyzed, like a bird before a snake.
'No Hay Remedio," said the observer. (There's nothing to be done, now).

BEST COPY AVAILABLE

From: E. J. Gerrity

To: W. R. Merriam

Subject: The Chi can Candidate

Here are some pertinent sidelights on Dr. Salvador Allende from a highly reliable but confidential source.

Physically, Allende is short, red-faced, curly-haired, and toughtalking. In real life he doesn't look nearly so young and attractive as in those recent photographs appearing in The New York Times and the world press. For one thing, he is not in robust health. He has kidney trouble He has had hepatitis twice, and it left him with chronic liver problems. He has suffered a heart attack, and two minor strokes that left the right side of his face partly paralyzed. He is also known as a heavy drinker, and of course this aggravates his physical problems.

In compensation, perhaps, he dresses elegantly and modishly. His party propaganda paints him as a man of the masses, but his tastes are refined and capitalistic: he owns a beautiful summer beach home, a yacht, and a full wardrobe of stylich suits.

Intellectually he has an upper middle-class background. But he has turned into a pugnacious Communist while retaining a degree of both worldliness and provincialism.

Since the Cl. lean elections much of the world press has been expressing fond hopes that Chile will develop its "own brand" of Communism, somehow more democratic and benign, with guaranteed freedoms and minimal disruption of business, social, and cultural life. Such hopes are far from the actual prospects.

No Communist government of an important nation, once installed, has ever been thrown out. It will make no difference that Allende is coming to power as the first Communist head of state ever democratically elected. It is foolish to believe that he will give democracy another chance in six years. Whatever the trappings, there is unlikely ever to be another truly free election in Chile.

Freedom is already dying in Chile. Allende's supporters have intimidated the entire press and broadcasting media serving the country's 9 million citizens. Only one newspaper, El Mercurio, and one radio station have held out against being cowed or coerced into support of Allende. And El Mercurio, usually appearing in 64-page editions in the springtime season, is now printing 10- to 20-page editions. This universally respected newspaper symbolizes a 150-year tradition of Chilean freedom of the press. Today El Mercurio is isolated, and nobody knows how long it can hold out.

Chilean Communism is going to look a great deal like Chinese and Cuban Communism. Allende has paid three extended visits to Red China, has sent his wife and daughter there as well, and has arranged China visits for Chilean newsmen.

Allende's sister, Beatriz, went to Cuba in September. Men of
Allende's own party, the Popular Union Committee, have visited Havana
regularly for briefings and money -- in dollars from the Russians.

Beatriz herself received subversion and guerrilla training in Cuba.

She carried back a portfolio of sage tips for Allende from her recent
visit. For example, 1. "Try to persuade your skilled technicians to
stay in Chile. Take administrative measures if necessary." (These
measures are already applicable in Chile: All the equatry needs to do
is send a certain man an internal revenue notice that his tan filings are
'under study and that he may not leave the country until he has been cleared.)

2. "Don't act too revolutionary or you'll give the counter-revolutionaries
the pretext to upset your economy." 3. "Direct all copper sales to the
dollar market." 4. "Maintain good relations with the military until you've
had time to consolidate your popular support."

Allendo is following Castro's advice, and we seem to be letting it happen. The Communist virus will certainly not be confined to Chile.

Already leftist elements in other countries of the hemisphere are getting bolder. Student militants have taken over all the non-leftist newspapers in Bolivia and are running them by Marxist cooperatives. American-owned mines will almost certainly be nationalized under the new government of

General Torres. In Argentina the new Minister of Economics is a leftist economist, Aldo Ferrer. As a matter of fact, there is no longer a respectable "democratic left" in Latin America -- men, for example, like Betancourt, former president of Venezuela, who managed to stand up to the 5-year campaign of arson, subversion, and marker personally directed by Castro against Venezuela.

The United States has poured money into Chile since 1964, when the relatively moderate Eduardo Frei won the election despite heavy financial assistance from Havana for Allende. In the years 1964-1967 we gave Chile \$658.4 million for AID projects. We were well aware of the need to help the Christian Democratic candidate and keep a Havana-wired Marxist candidate out. This time we kept our nose, financial and otherwise, out of Chile's presidential election. The State Department's epinion seemed to be: "It is unthinkable that Chile will go Communist." Now the unthinkable is on us, but we seem to be shrugging our shoulders and moaning, "We are powerless because the people of Chile elected Allende legally."

Under Frei, a program of economic reform was instituted, involving even a move toward gradual nationalization of some industries, but gradual nationalization of any kind is almost certainly out the window now. We can expect some swift and ruthless seizures.

And we can expect the same kind of repression of the human spirit which the doctrinaire Marxist always imposes -- a repression sometimes cynically enforced with raw power plays, sometimes with bumbling bureaucratic idealism. But the result is the same.

Three years ago Allende told an American observer: "The United States is in trouble, everywhere. The wave of the future is Marxist-Leninism."

Yet, when the election of Allende became a near certainty, former OAS

Ambassador Sol Linowitz said: "I think the best course for the U.S. is not
to rock the boat, respect the decision of the Chilean people, and hope that

out of this will come a mature system, with democratic rights preserved."

Far more likely is the comment of a Chilean citizen: "El Mercurio is like a candle in a bottle. It will give light for a while, and then will be smothered, leaving only a little black smoke."

That candle is freedom -- in Chile today, in the rest of Latin America tomorrow -- if Allende stays in power.

SYSTEM CONFIDENTIAL

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION INTERNATIONAL HEADQUARTERS

TO

Mr. H.S. Geneen

DATE October 27, 1970

FROM

E.J. Gerrity

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT Chile: Our Suggestions

Attached is a copy of our suggestions on Chile and Latin America as delivered to Dr. Kissinger last Friday at the suggestion of Ambassador Korry. These suggestions reflect, I believe, our discussions as well as the input from Korry and from our staff.

We are advised that the President now intends to take a hard line vis-a-via Russia around the world. What will evolve in Latin America remains to be seen.

cc: Messrs. H.J. Aibel

R.E. Bennett

F.J. Dunleavy

J. W. Guilfoyle

. J. Hanway

J. R. McNitt

N. Theofel

T. B. Westfall

bcc: Staff

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION WASHINGTON OFFICE

1707 L STREET, N.W., WASHINGTON, D.C. 20036

CARLE ADDRESS - INTELCO - WASHINGTON

October 23, 1970

Dr. Henry A. Kissinger Assistant to the President The White House

Dear Dr. Kissinger:

As a result of recent events in Latin America, foreign private enterprise in that area is facing its most serious exposure.

President Nixon, one year ago, in his speech before the Inter-American Press Association said, "We will not encourage private investment where it is not wanted, or where local political conditions face it with unwarranted risks."

ITT does not wish to go where it is not wanted, but we, too, have President Nixon's "strong belief that properly motivated private enterprise has a vital role to play in social as well as economic development."

Our company knows the peoples of the Americas deserve a better way of life and we believe we have a substantial interest in diminishing their problems. The countries themselves are unable to furnish necessary development funds, the U. S. taxpayers cannot, and U. S. private enterprise can provide only that part which a proper climate affords. Everyone agrees the job will have to be done on a coordinated basis.

ITT has given serious consideration to circumstances now facing Hemisphere development. We are convinced the present moment is a most expedient time to reappraise and strengthen U. S. policy in Latin America.

I attach a paper containing our estimations plus specific references to the Chilean situation. This is respectfully submitted; I would appreciate your comments.

Sincerely,

William R. Morriam

Vice President

U.S. At the Crossroads - A Needed Reapproisal of Our Latin American Policy

The ten year adverse trend of Latin American political and military unrest culminated recently in Chile where an avowed Marxist, Dr. Salvador Allende, was elected President. The free world was shocked and private foreign enterprise, already reeling from damaging treatment in Peru, Ecuador, and Bolivia, was left groping for means of protecting its investments.

Policymakers in Washington only a few months previously were using Chile as a democratic symbol. Now they are unable to predict how Dr. Allende's Marxist policies will affect the Chilean people, their democratic rights, and their economy. However, from Allende's preelection promises, the results can be anticipated.

What has happened in Chile brings the U.S. face to face with reality in Latin America. The Chilean Marxist government justifies an immediate reappraisal of our Latin American policy.

A recent Congressional report says over <u>cight billion dollars</u> have been channeled to Latin America from U.S. official sources during the past seven years, with "only modest visible development gains."

The report further states "the United States stands at the crossroads with respect to its policy toward Latin America."

The U.S. government time and again during the past few years has admitted our assistance programs in Latin America have not met their objectives. Those of us who have been operating in the area for almost 100 years are intimately aware of these failures.

The American public is appalled by the failure of the countries to help themselves; displeased with the lack of responsibility; and shocked by the unreasonableness with which U.S. tax money is regarded by those seeking it without a sincere intent of assuming the responsibility of its proper utilization.

Foreign private enterprise equally is disenchanted by the unethical political abuse of development projects which, over the past fifty years, could have made Latin America one of the most stable areas of the world. As previously stated, over eight billion dollars during the past seven years alone have been poured into Latin America.

A responsible segment within the Hemisphere is increasingly discouraged about future hopes. Radical government moves are retarding development; local capitalists are without confidence; foreign investors refuse to enter a hostile market; international banking prestige has reached a new low; therefore, the hopes of the people are shattered and essential development is stifled.

Like the Congressional report, we, too, feel we are at a crossroals because we must decide not only whether we, curselves, are to return to fundamental principles on which this country was founded, but also whether we are to stand firm for democracy for the sake of those friends of ours in Latin America who have based their hopes and aspirations on our strength. This is not a time to deny our own heritage, but is a moment of truth when we must stand erect to be counted.

Considering the background and philosophy of Allende and the strength of the Communist and Socialist parties in Chile, there remains no doubt that a strongly anti-U.S. government is prepared to take power. It should be readily apparent that a Communist-dominated Chile in the southern cone of the hemisphere in tandem with Communist Cuba in the north at our doorstep represents a new critical challenge to the national security and interest of the United States.

Allende has asserted publicly that he plans to establish diplomatic relations with Castro's Cuba, North Korea and North Viet Nam. He has said he is considering inviting a group of Red Chinese technicians to come to Chile. Thus, Chile can quickly become a new platform for anti-U. S. conferences and propaganda to further undermine United States prestige and influence in Latin America.

A Communist Chile also provides another base for export of Communist-inspired revolutionary violence, especially in countries neighboring Chile, and a transit point for Cuban and Soviet support for guerrilla groupings in several South American nations.

In addition to these political dangers, there is to be considered anew the strategic importance of Chile's resources to the security of the United States. There also exists the real possibility that in the future the Soviet fleet could use Chile as an operating base in the same manner that Cuba is utilized presently.

It is apparent that the interest and designs of the Soviet Union in Latin America are real. So is the threat of a hostile and Communist-supported regime in Chile. Our foreign policy should not ignore these facts of life today. This hemisphere still is in the United States sphere of influence and this should be made clear to the Soviet Union.

We do not visualize retaliation or vengence as a part of our policy. We are only convinced that to assist development of the Hemisphere the leaders must be assured the United States taxpayer is no longer prepared to eacrifice his hard-carned money for tasks which, as the Congressional report stated, "basically must be discharged by the Latin Americans themselves; and, even with the best of effort, many will not be accomplished in the next decade,"

Our prestige and influence are at a low obb in Latin America. They are low because our policies and diplomacy have been weak and indecisive. We have not used properly the legislative implements, such as the Hicken-looper Amendment, to our advantage as a diplomatic tool. Yet, large amounts of U. S. aid continue to flow into the area, in an increasing amount, while at the same time there has been growing discrimination against our citizens.

Congress feels this type of assistance should end; the people of the United States certainly agree, and our private corporations know too well it has been counterproductive.

The following quotation from the June 22, 1969, Subcommittee on Inter-American Affairs is almost prophetic in content:

"We want to note, however, that cooperation is a two-way street. The flow cannot come from just one direction. Our readiness to fashion new patterns of inter-American cooperation has to be matched by increased self-help and internal reform, by willingness to establish fair and stable rules which will attract private capital and reduce dependence on Government aid, and by other steps which will reinforce our mutual efforts and sacrifices."

U. S. Action Regarding Chile

In view of the far-reaching threats Dr. Allende made prior to his election, there should be no hesitance on the part of the United States to confront the new President on what the resultant action of the United States Government will be in the event he carries out his threats. This will not be retaliatory on our part, but will be information to Allende as to the orderly procedure which follows if his threatened action is taken.

We believe the United States should consider the following:

- 1. Under Presidential instructions, have the U.S. Ambassador to Chile seek an early audience with President Allende for the purpose of informing him of U.S. policy. The Ambassador's approach might include:
 - a. Review of our historical relationship with Chile; the democratic aspirations of our two countries; our contributions in the form of aid, soft loans, military assistance, earthquake and disaster relief; making him aware of this total figure of more than one billion, five hundred million poured into Chile during the past ten years.
 - b. Outline the vast economic and social contribution to Chile by U.S. private investment.
 - c. Call his attention to his own threats to these corporations, and inform him of the deep concern which resulted.
 - d. Make reference to the sudden economic fear which struck his country after the September election and advise him of similar repercussions experienced in international banking circles. (United Press International reports the Export-Import Bank has dropped Chile to its worst-risk category. It also reports the Overseas Livestment Corporation, another U.S. Government agency, is not insuring new investments in Chile.)
 - e. Inform President Allende that, if his policy requires expropriation of American property, the United States expects speedy componsation in U.S. dollars or convertible foreign currency as required by international law.
 - f. Inform him that in the event speedy compensation is not forthcoming, there will be immediate repercussions in official and private circles. This could mean a stoppage of all loans by international banks and U.S. private banks.
 - g. Continue the foregoing trend with every possible pressure which might keep Dr. Allende within bounds.
- II. As a reassertion of U.S. Latin American policy, each Hemisphere Ambassador to the U.S. -- and to the OAS -- should be called to the State Department and individually informed of our diplomatic review with Dr. Allende.

III. Without informing President Allende, all U. S. aid funds already committed to Chile should be placed in the "under review" status in order that entry of money into Chile is temporarily stopped with a view to a permanent cut-off if necessary. This includes "funds in the pipeline" "letters of credit" or any such.

IV. Serious and concentrated effort should be made at the Presidential level to strengthen the professional quality of the U. S. diplomatic representation throughout Latin America. The Soviet Union apparently has given such serious concentration and has staffed its embassics with top-flight Spanish-speaking and Portuguese-speaking ambassadors and diplomate. Unfortunately, the same cannot be said of the United States representation in various Latin American nations. In this connection, it should be noted that a year ago it was announced there was to be named an Under Secretary of State for Latin America. This post remains unfilled.

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from and

6/ De meter 27, 1970

MEMORANDUM FOR: Mr. R.R. Dillenbeck

SUBJECT: Chile Presentation to Mr. Kissinger

Nod Gerrity told me that the presentation which had been made to Mr. Kissinger was a membrandum which had been hastily put together at Mr. Korry's request made to Mr. Genean early on Prilay morning. His request was that we present to Mr. Kissinger ITT's views on what was happening in Latin America.

Apparently, Hel Hendrix has received a copy and I would suggest that you check with himsand secure one.

Howard J. Albel

**** /·...



World Goedenarters

320 Park Avenua New York, U.Y. 10022 Tel. (212) 752-6000

Legal Department

Ta.

. Mr. H. J. Albel

Date:

805 0

October 28, 1970

from:

R. R. Dillenbeck

Subject:

Chile/Memorandum to Geneen and Letter to Kissinger

Thank you fot providing me with copies of Mr. Gerrity's memorandum to Mr. Geneen on the subject of Chile and Mr. Merriam's letter to Henry Kissinger with enclosure.

The letter to Kissinger, insofar as I can tell, was not checked with either Legal or Treasury Department representatives who are currently members of the "team" interfacing with the Department of State on the AID/Chilteleo problem. Given the magnitude of our potential problem in Chile and the care with which sur relationships with the State Department must be conducted as a result, I find it almost unbelievable that a letter of this nature was delivered to State without any apparent effort to coordinate with the Chile "team".

In my judgment, the letter strikes a note which I believe the State Department will find uncongenial. The forceful approach it argues is contrary to the policy of the "low silhouette" as I understand it which is clearly the current approach of State. Putting aside whether or not the policy is correct, our leverage to effect a change in this policy is minimal. Identifying ourselves as being opposed to well-defined State Department policy at a time when it is imperative that we have the full confidence of our opposite numbers in State and at AID's successor (OPIC) seems to me possibly to leopardize efforts which will be made to collect on the AID quarantee insurance. The State pepartment, and OPIC to the extent OPIC is identified with State Department policy, are almost universally opposed to the Hickenlooper Amendment. It is a continuing irritant to them that ITT supports Hickenlooper. Since I believe it highly unlikely that the Hickenlooper Amendment will be formally invoked in the Chilcan context, regardless of what happens, we only can hurt ourselves by continually being identified with the Hickenlooper supporters,

Mr. II. J. Aibel Page Two October 28, 1970

I am not primarily concerned with the substance of the material delivered to Kissinger, even though I disagree with the tone of the letter and would take issue with some of the substance as well. What I am concerned with is the lack of corporate coordination which this letter indicates. On October 1, pursuant to top-level corporate instructions, Mr. Goldman, Mr. Meyer of the Treasury Department and I attended a meeting at AID in Washington to review the status of the ITT/AID guarantees in Chile in light of political developments there. Mr. Merriam's office was notified by my secretary of this trip and the date and time and purpose of the meeting were provided. No representative of the Washington office appeared at this meeting. After the meeting, a memorandum was prepared by Mr. Goldman and was sent to you, with copies to Messrs. Gerrity, Hendrix, Merriam and Neal of the Public Relations Department. Even a hasty reading of this memorandum would cause one to realize that ITT must speak with one voice concerning the corporate attitude toward Latin America in general and toward Chile in particular. It is my understanding that it was agreed to by Messrs. Dunleavy et al that there would be coordination on all levels concerning the handling of the Chilo situation. Perhaps this message was not conveyed to the Public Relations Department but I believe Mr. Gerrity attended the meeting at which Mr. Geneen was also present where the policy was clearly stated.

In summary, I would be most appreciative if there would be anything that you could do to prevent this kind of "end run" from taking place in the future. I anticipate extremely difficult negotiations in Chile and in Washington concerning ITT's Chilean investments. Failure of the ITT personnel involved to work as a team can only complicate the lives of all of us and, more seriously, possibly jeopardize recovery of the AID insurance

For your guidance, I have attached a copy of the October 2 memorandum,

Before I had seen the Merriam letter to Kissinger, I had a chance to see Mr. Gerrity's note to Mr. Geneen entitled "Chile: the Aftermath". At my request, Bob Crassweller propared an analysis of this memorandum and stated his forsonal views with which I totally associate myself. A copy of Bob's memorandum is attached hereto and I think you will find its balance, judgment and literate nature refreshing when compared to the other effort. Should you think it appropriate, perhaps Mr. Geneen would appreciate having some exposure to an opposite view to that to which he has been exposed already.

Mr. H. J. Aibei Page Three October 28, 1970

I am sure Mr. Gerrity knows that my views differ substantially from his and those of Jack Neal with respect to Latin America and perhaps that is the reason the Legal Department is not given an opportunity to participate in advance of dispatch of material outside of ITT. I think this kind of performance is not up to the best standards of ITT where opposing views are supposedly worked out in-house and then a united front presented. End runs such as this caused by the Public Relations Department are demoralizing and eventually self-defeating to ITT's business goals.

RRD;mg Attachments

cc: Mr. R. G. Bateson

Comments on Chile

The following observations are prompted by the attached memorandum dated gaber 20, 1970 from E.J. Gerrity, Jr. to Mr. Gencen:

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Referring first to the broadest question raised by the Gerrity memorandum, I think it is correct to conclude that characteristics and directions of the Allendo government are not yet marked out in full detail, although of course the country will swing sharply to the left. The exact nature of the leftist measures that it will take, however, and the speed with which these will be realized, are by no means clear.

- A. Certain factors point to a quick movement leftward. The government will have all the usual incentives to produce quick results. The enthusiasm and fanaticism of some of the members of the coalition will naturally create pressure for immediate measures. If the present economic decline continues, and particularly if a mood of panic arises, the Government may be forced into harsh steps at an early moment.
- B. Other factors point to the likelihood of a slower leftward movement. Allende has agreed to constitutional guarantees that will have a moderating influence. There are six members of his coalition, and the difficulties of coalition politics often make it necessary to proceed with caution. The government would have little to gain by the adverse internal and foreign reactions that would result from hasty radical action, and Allende may find it easier and more profitable to attain his ends by a gradual process, step by step, without exciting his opposition into a really strong confrontation.

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The difficulty of appraising internal developments authoritatively at this time makes it likewise impossible to predict with any confidence the impact of the Chilean experience upon the rest of Latin America.

A. There is no reason to believe, however, that a domino effect will be created. Such a reaction has failed to materalize from the Cuban example, in spite of the fact that the Cuban government has maintained a considerably more forthright dedication to Communism and to foreign subversion than is associated with any of Dr. Allende's pronouncements. It is not realistic to say that Chile itself is an exception to this Cuban generalization; Allende is close to Castro on a personal basis, but the long and gradual leftward tendency in Chile appears to have roots that preceded the Cuban experience, and the Chilean self-image would be offended by the suggestion that this major country was dominated and led in its development by a small and remote island.

- B. The situations of Chile's neighbors vary considerably from each r, and a uniform reaction is highly improbable. This is fortified by the strength sationalism everywhere.
- 1. The most important neighbor is Argentina, which has long been accustomed to asserting its dignity and its stature in opposition to Chile. It is not at all realistic to think that the present state of public opinion, to say nothing of the government, would meekly turn 180 degrees and head to the Communistic left.
- 2. Peru has its own brand of nationalism and statism, and these are jealously regarded by the government. There is also an 80 year tradition of rivalry with Chile, and bad feelings between the two countries.
- 3. Bolivia is so volatile that its reaction cannot be generalized. In any event, however, from the point of view of ITT Bolivia is relatively unimportant, and whatever reaction it does show is unlikely to be more stable than previous regimes and reactions have been.
- 4. The other countries of South America are insulated by distance and by other differences. Brazil is too large to be heavily influenced by Chile. Venezuela and Columbia are far away and nothing that is in prospect in either one of them indicates that they would be vunerable to the Chilean example.

III ·

The reaction of the Department of State (D.O.S.) will necessarily depend upon the development of the factors considered in I and II above.

A. As a generalization, however, it is unlikely that D.O.S. will jeopardize hemispheric relations by taking an extremely hostile stance vis a vis Chile, or by making what D.O.S. would consider an overly-strenuous and impolitic intervention on behalf of one or more American companies with confiscated Chilean assets. D.O.S is likely, in other words, to do whatever can be done in a restrained and realistic manner, as was the case in Peru, but it is unlikely to make an all-out effort in circumstances over which it exerts little control or leverage. The history of the D.O.S. involvement in the oil nationalization programs in Mexico in 1938, in Bolivia in the 1950's and in 1969, and with IPC in Peru, all point in this direction. Aid and other forms of cooperation might well be reduced, but it is not likely that the Hickenlooper Amendment will be invoked, at least publicly and officially. There are at least two reasons for this. First, the Allende government would be likely to make some offer of compensation; this might be inadequate, but it would at least be arguable, and this would undercut application of the Hickenlooper doctrine. Second, in any event D.O.S. will make a determined effort to preserve its flexibility and its options by refusing if at all possible to have recourse to so rigid a sanction.

- B. Specifically, with reference to particular recommendations in the α -rity memorandum:
- 1. I see no reason to imagine that D.O.S. will allow itself to be "pinned down on the record in a written exchange of views so that, in effect, a formal history is set down." There are innumerable ways of avoiding this, even while maintaining correspondence, and it seems clear enough that D.O.S. will not commit itself in writing to firm policy stances for the sole purpose of satisfying ITT.
- 2. It is not entirely clear to me why Mr. Gerrity contends, on the one hand, that it is important that ITT establish on the record the estimate of D.O.S. as to what will happen to U.S. investment in Chile; and on the other hand comments a few paragraphs later that D.O.S. has been wrong in Chile so far and is always wrong anyway. In this connection I think it is likely (although I am not certain) that D.O.S. expected a narrow victory by Allesandri; so did ITT, and most other observers. In the event, the Allende margin over Allesandri was a bit more than 1% and no one purports to be infallible to that degree in any Latin American political situation.
- 3. In the top paragraph on page two, it seems to me presumptious to "demand" that the White House require U.S. representatives in international banks to take a "strong stand" against any loan to countries expropriating American compan or discriminating against foreign private capital.
- 4. I also think that the second paragraph on page two, recommending that ITT request members of Congress to warn the Nixon administration that mistreatment of U.S. private capital will result in terminating U.S. contributions to international lending institutions, is presumptuous.
 - 5. The fifth paragraph on page two, suggesting that ITT urge staff reductions in the U.S. diplomatic establishments in Latin America, is naive and unrealistic, and would certainly be resented in Washington.
 - 6. All of the points discussed in paragraphs 3,4 and 5 above would, if implemented in the monner indicated, in the Cerrity memorandum, be counter product rather than helpful. They would be ideally calculated to support leftist assertions about American economic imperialism, and their tendency would be to stimulate a nationalistic backlash against foreign private investment generally.
 - 7. The reappraisal of the ITT position in Latin America referred to in the Gerrity memorandum might be helpful, but this should come after the Chilean situatio has been clerified. Although it is impossible to be dogmatic or to read the future, it is likely that a thorough and dispassionate analysis would yield a reasonably optimis estimate of a program based on increased investment in a broad cross section of industrial and commercial fields, with greater geographical diversification.

16: H. S. Geneen

Nov. 10, 1970

RE

Chile

Attached are several items.

l. The copy of Henry Kissinger's letter of yesterday's date to Bill Merriam. Please note Bill's note at the bottom of the letter. We are advised that Chuck Meyer is under fire. We don't know what decision will be made as to his future.

Additionally, Merriam is delivering to Kissinges the latest information referred to infoour note as supplied by Bob Berrellez.

2. Berrellez's telex which I have copied in sufficient number for all members of the Board should you desire to distribute it to them.

Also attached are some newspaper clippings from the New York Times' report on the unveiling of a statue of Che Guevara.

cc: Messrs. R. F. Silver J. J. Navin

E J GERRITY

14

THE WHITE HOUSE

November 9, 1970

Dear Mr. Merriam:

Thank you very much for your letter of October 23 and the enclosed paper on United States policy toward Latin America. I have read it carefully and I have passed it to those members of my staff who deal with Latin American matters. It is very helpful to have your thoughts and recommendations, and we shall certainly take them into account. I am grateful for your taking the time to give them to me.

With best regards,

Henry A. Kissinger

Mr. William R. Merriam Vice President International Telephone and Telegraph Corporation 1707 L Street, N. W. Weshington, D. C. 20036

Mr. E. J. Gerrity

Believe this is more than perfunctory. Things are brewing on the Chile matter and will be back to you later on that subject.

W. R. MERRIAM

Keith Perkins

November 2, 1970

Hal Hendria

Chile - C. Bartlett

FYI, Charlie Bartlett of Sun-Times Syndicate called Friday and we talked for over an hour about Chile and the general situation in Latin America, plus the attitude of the U.S. and lack of any Nixon policy. Apparently he is planning several columns on the subject in the days ahead. I gathered from a recent column and from some of his comments that he had a copy of one of our earlier memos (Hendrix-Berrellez) on Chile. Fon't really know what tack he will take at this point, but presume it will be anti-Aliende and anti-administration with respect to U.S. Latin policy--or lack of it.

cc: E. J. Gerrity, E. R. Wallace, E. Dunnett

TEXTERMATIONAL TELEPHORE AND TELEGRAPH CORPORATION INTERNATIONAL RESEQUENCES

10 Mr. F. J. Danleavy

RECEIVES

DATE November 4, 1970

FS 5/4

E. J. Gerrity, Jr.

NOV 5 1970

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT Chronological File on Chile

E. J. Whilesty .

Attached is a chronological file on information we have received from Chile and a chronological file on some of the information that our Washington office passed on to State and the CIA.

Unfortunately, we have not kept a record on all the contacts he Washington office has made with the agencies.

Attachment

Draft

March 22, 1968. Memo from Hal Hendrix ITTLABA to S. R. Donnellon ITTHQNY:

"The way things are going politically in Chile (President) Frei could be devoured by his own 'revolution in freedom'... By their self-righteousness and militant manner and actions, the far-left faction of the Christian Democratic party seems bent on destroying Frei and the party piece-meal... Unless Frei and his government begin getting some breaks and demonstrate they are able to stem the inflation spiral, chances are very high that Chile will become the first nation in Latin America to have a Marxist government take power through a free, constitutional election..." (cc: Gerrity, Wallace, Dunnett, Donnellon, Wells)

August 27, 1969. Tolex from B. Holmes, Chilteleo, to J. Stimson ITTHONY

"... The commission on minos of the Chamber of Deputies, taking advantage of a majority of Communists, Socialists, Radicals and leftist Christian Democrats, approved a project to nationalize Anaconda properties immediately..."

(cc: Latin America group executives and Headquarters executives)

November 5, 1969. Memo to H.S. Geneen from E.J. Gerrity/H. Hendrix

"...Looking down the road at Chilteleo's position, in light of the current
nationalization of Peruteleo and political trends in Chile, there exists the
possibility that Chilteleo could be the next ITT utility on the firing line since
1970 is a presidential election year in Chile..." (cc: Dunleavy, Guilfoyle,
Donnellon, and Wells)

December 24, 1969. Telex from B. Holmes to J. Stimson.

"... The left-wing parties made public their program for the presidential elections in 1970, although they have not yet been able to reach agreement as to how they will nominate one candidate for the elections. The program is absolutely Marxist and state-oriented, expropriating gractically all of the foreign and national private investments..." (cc: Latin America group executives and Headquarters executives)

Jane 2, 1970. Memo from J. Neal to E.J. Gerrity.

"... The state Department says its latest survey from Embassy Santiago reports that, it election held today, Allessandri would be the definite winner with 40% of the votes. The other two would split with 30 each. However, since the election is four months off, and Tomic coming on strong, anything can happen..." (cc. Dunnett, Hendrix, Merriam)

September 9, 1970. Telex from E.G. Wiener, Rio, & H. Hendrix

".. General reaction here (Brazil) has been one of apprehension, surprise and hostility. Sample editorial in the Jornal do Brazil entitled Electoral Earthquake speaks of a sense of catastrophe in view of exchange of cordial messages between Allende, Fidel Castro and the Soviet Union. It also points out the dangers of conciliatory policies which try to find accommodations by 'third solutions' to modern ideological problems... The editorial calls for a review of continental

. .

policies in light of the Chilean development..." (cc: Dunnett, Gerrity, Guilfoyle, Marshall, Perkins, Taube, Theofel, Wallace, McDonald, plus Latin America group executives and headquarters executives)

September 14, 1970. Memo to H.S. Geneen from E.J. Gerrity.

".....We are confronted with reports that Allende will move slowly toward his announced goals. However, the men behind Allende plan to move rather quickly. We believe that Allende, despite the belief in some quarters that he is a 'good Marxist'--whatever that is--could, giving him the benefit of the doubt, quickly become a prisoner of his followers. The Russians, for example, are very active in Chile now to protect their advantage (Allende's victory). In any case, whether he moves quickly or slowly, Allende plans nothing good for the U.S...."

September 17, 1970. Memo to E. J. Gerrity from Hendrix/Berrellez.

"...At this stage the key to whether we have a solution or a disaster is

Frei--and how much pressure the U.S. and the anti-Communist movement can bring
to bear upon him in the next couple of weeks...Allende and the Marxist-Socialist
coalition (Unidad Popular) are acting like he is the elected President. They are
pressing hard on all fronts to consolidate his slim September 4 election plurality into
a solid victory in the congressional vote. Chile's communist party, a part of the
UP coalition, is directing the pressure. Strategy is co-ordinated by the USSR.

Party discipline and control thus far is extraordinary...President Frei has stated prily to his closest associates, to Alessandri and to a State Department visitor last

week end in Vina del Mar that the country cannot be allowed to go Communist and that Allende must be prevented from taking office...

There is no doubt among trained professional observers with experience in the U.S., Europe and Latin America that if Allende and the UP take power, Chile will be transformed quickly into a harsh and tightly-controlled Communist state, like Cuba or Czechoslovakia today. The transition would be much more rapid than Cuba's because of the long-standing organization of the Chile Communist Party. This obviously poses a serious threat to the national security of the U.S.

--Sol Linowitz, Senator Church and others of the same thought notwithstanding-- and to several Latin American nations. It also is obvious from Allende's pronouncements that existing business and financial links with the U.S. would be strangled.

... Frei, said Matte, is highly worried about the damage to his stature in the hemisphere; he is concerned that he may become, as the Brazilians have put it, the Korensky of Latin America.

But he still refuses to take the reins in his hand without "moral" reasons,

Matte said.

Could he be persuaded, Matte was asked, by assurances of fullest support from Washington? He thought that over a while and finally said he thought that would help. The distinct impression, however, was he might have felt this would have to be done with consummate skill and tact so as not to offend Chilean national dignity. (Korry's new mandate may serve this purpose)." (cc: Dunnett, Perkins, Wallace)

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Separation 29, 1970. Memo from Robert Berrellez to Hel Hendrix, ITT HO NY
"... There's only a thin tendril of hope of an upset based on a sharp and
unlikely switch in voting sentiments among the Christian Democrats who hold the
balance of power in the run-off. The prevailing sentiment among the P.D.C. is
said to favor Allende.

A more realistic hope among those who want to block Allende is that a swiftly deteriorating economy (bank runs, factory bankrapt cier, etc.) will touch off a wave of violence, resulting in a military coup.

President Eduardo-Frei wants to stop Allende and has said so to intimates.

But he wants to do it constitutionally--That is, either through a Congressional vote upset or an internal crisis requiring military intervention.

All past avaluations of Frei's weaknesses in a crisis are being confirmed. Worse, it has been established beyond any soubt that he has been double-dealing to preserve his own stature and image as the champion of Latin American democracy. For instance: he told some of his Ministers he would be quite willing to be removed by a military coup. This would absolve him from any involvement in a coup that would, in turn, upset Allende. Then, he turned right around and told the military chiefs that he was totally against a coup.

... No hope should be pegged to conditions the Christian Democrats are demanding from Allende in exchange for their support in the Congressional vote.

Some believe that if Allende turns them down, the P.D.C. will not vote for him.

Allende will promise anything at this stage. Furthermore, many of the conditions the P.D.C. is making are covered by the Constitution, to which Allende will pay lip service for a while until he is firmly in the saddle and has consolidated all the elements necessary to convert Chile into a thoroughly Communist, self-perpetuating state,

- 6 -

...It is obvious from his latest remarks, however, that Allendo feels something is in the wind to deprive him of the Presidency in the Congressional vote. On Monday, he warned publicly that he would bring the nation to civil war if he was not voted into power.

... Meantime, the Russians are busy helping shore up Allende's defenses.

Since the September 4 election, the Russian Embassy staff in Santiago added twenty new staffers.

...A Congressional defeat for Allende seems unlikely at this point. The defeated Christian Democratic candidate, Radomiro Tomic, is still backing

Allende and can take a sizable segment of the P.D.C. vote with him..." (cc: E.J. Gerrity, E.R. Wallace, K.M. Perkins, E. Dunnett)

September 30, 1970. Memo to W. R. Merriam from J. D. Neal, Washington office.

"...I fear the Department of State will convince the White House to again circumvent the Hickenlooper Amendment -- as it has done in Peru, Bolivia, and Ecuador, etc. Instead, I look for the silent pressure (?) which will call for a drying-up of aid and instructions to U.S. representatives in the international banks to vote against or abstain from voting on Chilean loans.

For the past several years the State Department has been predicting an upsurge of Marxism in Chile, and foresaw the culmination of the threat in the September, 1970 elections. Knowing this, the U.S. stepped up its AID Program in an attempt to help Chile remain democratic.

... The foregoing means the U.S. realized the danger of Marxism in Chile; so fought it with grants and loans, but did not have the extra forethought to follow its intuition by taking a more active part during the pre-election period to assure

the defeat of Allende.

The State Department and AID admitted in public congressional hearings that, "Chile is a country of Emajor U.S. assistance emphasis because of its important political role in the Hemisphere." They continued the hearing by saying the liberal U.S. loan policy to Chile is justified because they were putting the money in there to fight Marxism. However, now that its program failed to prevent Allende from winning the election, the U.S. says, "This is a Chilean matter, thus, we must not interfere!"

Why should the U.S. try to be so pious and sanctimonious in September and October of 1970 when over the past few years it has been pouring the taxpayers' money into Chile, admittedly to defeat Marxism. Why can't the fight be confined now that the battle is in the homestretch and the enemy is more clearly identifiable?"

October 16, 1970. Memo from E. J. Gerrity to H. S. Geneen.

"...Korry agrees that Allende would proceed to nationalize business in keeping with his promises during the campaign. However, Korry believes this may proceed slowly rather than hastily depending on the enterprises involved.

...Korry does not believe the Russians will supply military equipment.

I think that either Russia or one of its satellites will supply military equipment as soon as deemed feasible."

From memo to W.R. Merriam from J.D. Neal, October 15, 1970 (attachment to October 16 memo immediately above)

"... The Ambassador (Korry) believes Allende, upon taking office, will

proceed cautiously and slowly. It will not be necessary for him to initiate new legislation because he will already have sufficient authorization to carry out most of his socialistic program.

The Ambassador soid that regardless of Allende's many faults and idealistic beliefs, he is known to be a man of his word; so it is quite cettain he will carry out his campaign promises. This means nationalization of everything which he thinks should fit into his Marxist scheme...," (cc: Dunleavy, Guilfoyle, Westfall, McNitt, Brittenham, Hendrik, Wallace, Aibel)

October 16, 1970. Memo To E.J. Gerrity from H. Hendrix (by phone from San Jugan)

"... Meanwhile, Allende and his representatives have been ardently romancing the armed forces at various levels and have continued to infiltrate the lower ranks. Many have agreed to support Allende after hearing his promises to give the Army a greater role in developing the country's infra-structure, much like the work of a U.S. Corps of Engineers.

Allende also has promised various officers that he will not change the military organizational structure. But he has given no pledges about personnel changes. One retired officer pointed out that all Allende has to do as President is to pick his time to promote a loyal Major-or Colonel to General rank and all those officers above his appointee would automatically be retired out of command. This is a tactic not uncommon in Latin America.

Allende this week has had a series of meetings with Chilean business leaders, seeking pledges of support. He reportedly made it clear to all visitors that he intended to move as rapidly as possible with his industrial nationalization plans,

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legally with the aid of a Congress he will be able to control. He has not clearly defined a manner of compensation in his plans to nationalize the basic mining, banking, communications, both national and foreign, enterprises in Chile.

Proclack from some of these sessions indicates that Allende has become gravely concerned about the sick state of the Chilean economy. It is far worse than he first thought, according to some visitors, and it is said Allende is now giving this problem an "agonizing reappraisal." Business conditions are two receiving steadily throughout Chile, unemployment is rising, and the flight of capital is continuing." (cc: E. R. Wallace, K. Perkins)

October 22, 1970. Memo to E. F. Gerrity from Hal Hendrix.

"... Berrellez noted that from what he has observed, Allende gave Holmes
the same kind of soothing massage he has given several other leading business
executives in Santiago recently. As Bob put it, he has been through this reassuring
kind of romancing before, i.e. Cuba, Dominican Republic, to be specific."
(cc: E. R. Wallace, K. Perkins)

October 22, 1970. Memo from Robert Berrellez ITTLABA/CHILTELCO to Hal Hendrix.

"...All this merely re-emphasizes what is readily apparent to some of us on the scene, although not to those abroad and much of the uncritical, adoring U.S.

press; that Frei's image as a champion of democracy is a distorted reflection of a political opportunist with an appalling lack of guts and principle, a conniving tightrope walker who neutralized vital political-military power sources by talking two different languages at historically critical moments before and after the election.

In essence, a latter day Trojan horse who sold the U.S. down the river partly through the "good offices" of a first-rate if gullible ambassador. " (cc: E.J. Gerrity E.R. Wallace, K. Perkins, E. Dunnett)

October 25, 1970. From Robert Berrellez to Hal Hendrin -

- "... Marxist Salvador Allende has been elected to the Chilean presidency
 by the congress and the first step toward the total communization of this country
 has been taken.
- 2. In view of important recent developments, a major question is what immediate steps the communists will take to consolidate their beachhead. A likely immediate target is Allende himself. Although a Marxist and an admirer of Castro, Allende sees himself as a Western hemisphere Tito who will forge his own utopian version of socialism; at once palatable both to Washington and Moscow.
- 3. Having just recently given Tito a porsonal presidential blessing,

 Washington will certainly arouse liberals everywhere if it turns its back on Allende.

 Such inconsistencies are fodder for the editorial pages,
- 4. However, if Washington just sits there and does nothing to thewart Allende, it will be inviting a sharper turn toward leftist nationalism which translates into more danger for foreign investments among other Latin American countries.

- ...6. Thus the communists can and probably will take the measures necessary to shape Allende to their liking. A key fac for here is economics.
- 7. The general consensus is that the election of Allendo by congress pulled the plug from under the anemic Chilean economy. Without help from Washington, Allende will be forced to turn to the communists and Moscow. The Russians don't want another Tito on their hands. In order to fortify their hold, the communists will have to start tampering with the congress, the trade unions and the military. This will invite some serious troubles for the communists.
- ...11. A widespread belief is that the Schneider plot was handled from within the army. The job was too professional for ordinary civilians excluding those trained in Russia and Cuba. The thinking is that if the Schneider shooting was not really the prelude to the coup, it was a skillful maneuver to eliminate from the top the one man who would have permitted Allende to infiltrate and neutralize the military." (cc: Gerrity, Wallace, Perkins, Dunnett) (also sent as attachment to memo of October 27, 1970 from E.J. Gerrity to H.S. Geneen with copies to Dunleavy, Gailfoyle, Theofel, Gen. McNitt, Merriam and Neal)

CONFIDENTIAL

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Mr. H. S. Geneca

E. J. Gerrity

Charles Moyor

November 4, 1970

Attached is an in-depth report. It speaks for itself. Meyer has

not done a good job.

Attachment

J. A. McCono
W. R. Merriam
J. D. Neal

PERSONAL AND CONFIDENTIAL

INTERNATIONAL HEADQUARTERS'

in off.

E. J. Gerrity

from Hal Hendrix 🔑

SUBJECT Charles Meyer

DATE October 30, 1970

WHEN REPLYING, PLEASE QUOTE FILE

Per your request for a personal viewpoint sketch of Charles Meyer, following are some of my thoughts:

Meyer came aboard at the Department of State as Assistant Secretary for Inter-American Affairs in March, 1968.

Previously, he was a Sears Roebuck executive in Latin America, with about 14 years residence in Bogota, Colombia, where he performed as an outstanding merchandiser in the Sears Roebuck joint-effort program in Latin America. Sears had been knocked out of business during the 1948 Bogota riots, and, in effect, it was Meyer's mission to restore the company's presence. In that role he performed well. But Moyer's Latin America experience was limited to the north coast of South America and Mexico.

During the last two and one-half years at State, for all his great personal charm, elegance and wit on social occasions, he ranks very high as the weakest Assistant Secretary in recent times -- at least during my 22 years of association with the area.

He has only secondary or tertiary relations with the President, for example, who from the beginning has relied on his National Security Council team, Henry Kissinger, and Latin America specialist Viron Vaky for top guidance on the Latin area. His clout with Secretary Rogers is about as potent.

By the same token, Meyer has suffered--as has his area department within State--because of other pressing administration priorities around the world, and surely in the U.S.

But Meyer clearly has been ineffective in the bureaucratic infighting for attention at State, and, therefore, in the Nixon administration.

He also on numerous occasions has exercised bad judgement in dealing with the press that covers Latin America. His contacts with press are extremely limited as a result.

. 2. .

There has been an enormous lack of imagination prevalent in the Latin section of State under Meyer's direction, with very few exceptions. With him and his deputy, John Crimmons, the general theme has been don't make any waves; don't rock the boat. Granted, there is the traditional State timidity within the careerist system for this particular attribute of Meyer's administration, but he has failed to encourage either creative or independent thought. This is a complaint heard throughout Latin America in our embassies. He certainly has not fought for his area or his section in the manner of some of his predecessors, notably Tom Mann, Henry Holland, or even Jack Vaughn in his short sit in the slippery Assistant Secretary chair.

In retrospect Meyer may, of course, be the victim of the new Latin area strait jacket called the "low profile of the U.S. in Latin America," which when applied to Chile today could be a salient reason why the United States failed ever to head off in 1970 that which it so successfully and energetically aided Chileans to avoid in 1964-the emorgence of a Marxist president. Meyor and Crimmons jointly led the effort to make certain that the U.S. this time did nothing with respect to the Chilean election.

Meyer's public statements in Latin America all seem to be flavored with apology, which certainly doesn't reflect U.S. strength.

As stated in the beginning, I consider Meyer one of the weakest yet in the long string of Assistant Secretaries. I also believe it would be better for us if he returned to Sears Roobuck.

cc: E. R. Wallace, K. Perkins, E. Dunnett

· System Confidential Telex - Urgent - November 6, 1970 - LA-4439/K

To

H. Hendrix - ITTHONY

From.

R. Berrollez - ITTLABA

Subject: Chilcans

- 1. Salvador Allende was inaugurated last Nov. 3 as Chile's President (until 1976) without incident. At every public appearance during the two-day inauguration fostivities, he was a living, breathing image of political moderation, a perfect vehicle that Moscow will now thoroughly exploit to give their brand of communism a touch of bourgeoise respectability they hope will make it palatable--and even desirable--in other Latin American countries.
- 2. Evidence that the ploy is working in Chile can be found among Allende's conservative opposition. The very people who were once urging Washington to take firmer action to stop Allende now believe they can co-exist with him. They say that "Washington must do nothing in terms of economic or political reprisal that will force him to turn toward the extreme left."
- 3. Allende has made a most compelling pitch for moderation and national unity. And it would be altogether believable were it not for a few grim undercover signs that clearly indicate the leftwing extremists (Castroites, Maoists) have already moved in to consolidate power bases from which democracy will be slowly but thoroughly strangled long before Allende's six-year term is up.
- 4. Most alarming of these signs is the presence in Santiago of Cuban political police personnel, trained in Moscow, and headed by Luis Fernandez Ona, described as one of their best agents. The Cubans and other Iron Curtain "tourists" and delegates to an industrial fair now underway in Santiago, arrived within items of the September 4 voting which gave Allende a plurality in the voting.
- 5: A weekly newspaper, PEC, recently published a detailed account of the clandestine movement of the leaving extrements in Chile. The account has been termed "highly accurate" by authoritative sources, persons in a position to know.
 - This version, supplemented by information from other sources, indicates
 the visitors have taken up residence in homes and apartments in Santiago,
 suggesting a lengthy stay.

2 -

- 7. Fernandez Ona arrived ostensibly on a romantic mission. He fell in love, a purposely muted public version alleges, with Beatriz Allende, daughter of the President, while she visited in Havana. Beatriz is said to have been the bearer of an alleged special message from Fidel Castro urging Allende to (a) keep copper in the dollar market (b) don't fall into the Soviet clutches, and ad infinitum. Once believable, the message's authenticity becomes more questionable when viewed in the light of what has been going on quietly underfoot.
- 8. Fornandez Ona's mission is said to be concerned mainly with the shoring up of security for the governing coalition against a military coup or subversion from any other quarter. The Popular Unity front that put Allende in power had organized highly effective security units (commandos) that apparently had infiltrated the police. These are expected to serve as cadres for "committees" in defense of the new regime in the same manner that General Alberto Bayo organized "Committees for the Defense of the Cuban Revolution" in 1959. There was one committee to each block in every key urban community. Thus, when the Bay of Pigs invasion came in April, 1961, the committees were ready to finger--and imprison--anyone suspected of disloyalty.
- 9. Collaborating with the Cubans are Chilean leftist extremists, the self-styled "revolutionary left" that vigorously opposed--until Castro intervened to quiet them--the "peaceful" quest for power by the Communists and more moderate Socialists. Published statements last week showed the "revolutionary left" is still agitating in schools and universities urging "vigilance committees" to prepare now for any move by the moderates to thwart a total socialization of the country.
- 10. Numerically the extreme left may be small, but it has been proven in post-war Europe and more recently in Cuba that a militant, disciplined minority can quickly and effectively neutralize and overpower a majority.
- 11. A grim development that may greatly strengthen Allende's and the Communist position was the assassination of Gen. Rene Schneider, head of the Armed Forces until he was gunned down in late October (see Oct. 25 report). What initially appeared to be a professional job handled from within the Army furned out to be a poorly organized and bungled kidnap attempt in which at least two ex-military figures are directly involved.

. 3 -

- 12. Among those arrested in the Schneider killing was General Roberto Viaux, a retired officer who gained national prominence and a measure of lower-rank following last year when he led an abortive pay-hike rebellion against the Frei government. Viaux, a conservative strongly opposed to Allende and around whom coup elements appeared to be rallying after the Sept. 4 election, has a lwayer who has indicated more Army brass may be involved.
- 13. If it turns out that some toplevel military chiefs are involved, even indirectly, with Viaux, this will give Allende the moral and political authority to purge the Armed Forces command and move his men into strategic military positions. This would, in effect, neutralize the Armed Forces which so far have displayed nothing but passivity amid the pproaching storm.
- 14. In one of his most revealing press interviews, President Allende told Julio Scherer, a highly respected Mexican journalist (Excelsior of Mexico City) last Nov. 2: (a) He will use the plebiscite (constitutionally correct) wherever necessary to go around Congress if needed reforms were blocked by legislative action. Asked if this would not eventually lead to the disappearance of Congress as an effective legislative body, Allende said emphatically "Never would we make Congress disappear." (b) Describing the flight of investment capital as part of a "climate of terror," imposed on Chile, he said its continuation would force a limitation of individual guarantees under the Constitution. He added: "If reactionary violence comes, we will respond with revolutionary violence."
 (c) If Chile finds itself isolated and blockaded as did Cuba, "There then is no alternative but armed insurrection. We are disposed to anything:"

Our Havana files are not available, but a flashback to the year 1959 brings memories of highly similar remarks by Castro when, like Allende, he was impressing almost everyone within earshot of his moderate political views while his brother Raul and Che Guevara worked quietly behind the scenes for the mousetrap job that followed. For instance, Castro said that elections were not necessary. That the people were the Congress of Cuba, that until the subversives were liquidated and the climate of terror imposed on Cuba from inside and outside was lifted, there would have to be special "precautions" imposed on the citizenry for the defense of the revolution, that counter-revolutionar violence would be met with implacable revolutionary violence.

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The Sum-Up:

- 1. The view by Chilean conservatives, now trying to make deals with Allende, that U.S. economic and political reprisals will force Allende farther to the left is a correct assessment. It ignores a fact, however, that whether the likes it, Allende will be forced far to the left eventually regardless of what policy Washington adopts.
- 2. The view among another sector that U.S. reprisals will force Allende into the leftwing extremist camp and that this will trigger a popular and military reaction against his government has little merit. The military has shown no disposition to act in the clutch. There is little reason to believe their proof is changed. It is even questionable that they have the capacity to handle inclind of massive nationwide reaction the far left can mount: general strikes, urban guerrilla warfare. Time is swiftly eroding the military capacity to move against the Allende coalition, even in defense of the Constitution, if such a moral issue arises.

680 PARK AVENUE NEW YORK, NEW YORK 10021 • (212) 628-3200 • CABLE: COLATAM

November 9, 1970

CHILE

No. 1: 1370

(allende

Mr. Jack D. Neal Director, International Relations Int'l. Telephone & Telegraph Corporation 1707 L Street, N.W. Washington, D.C.

Dear Jack:

The attached letter to President Allende of Chile, signed by Mr. Jose de Cubas, was sent out today.

This letter is being circularized to the CoA Trustees and to the Steering Committee but is not being given wide distribution or released to the press at this time. Further action regarding possible additional distribution is being held in abeyance pending President Allende's reaction, if any.

We believe that this is a very firm but positive and constructive message and sincerely hope that it will elicit a favorable response for further dialogue between the Chilean Government and Council Members.

Sincerely.

Henry R. Geyelin Executive Vice President

HRG:mc w/att.

Charles David Ross-Vite: - Principle John Colons - Escolar Loc Provider Heart & English - Charles Concelle (Man Elective 19 and 12 despite - Sec Charles Charles (Man July Charles Cha

COUNCIL OF THE AMERICAS

680 PARK AVENUE NEW YORK, NEW YORK 10021 (212) 628-3200 · CABLE: COLATAM

November 5, 1970

His Excellency Dr. Salvador Allende President of the Republic of Chile Palacio Presidencial La Moneda Santiago, Chile

My dear Mr. President:

As President of the Council of the Americas, a group of 220 companies with some 2,000,000 Latin American executive, professional and technical personnel, employees and workers throughout Latin America, I am writing to you to follow up on my cable of November 3 and to express our grave concern regarding the future of relations between the productive and dynamic forces of Chila and of those of the United States, and to outline our position on questions which affect the foreign private sector.

- 1. We are concerned by your repeatedly-stated policy of nationalizing mining, banking, and other enterprises in Chile, because we earnestly feel that the implementation of this policy will be contrary to the interests of everybody concerned; the Chilean employees and their families; the enterprises in question; the Chilean and foreign investors in these enterprises; and the peoples of Chile and other countries who have mutually benefitted from the private management of these enterprises.
- 2. We are <u>not</u> worried about change as such. In fact, U.S. industry has prospered through the years because, above all, it <u>is</u> sensitive and responsive to change -- but we <u>are</u> concerned with change that does not reflect the realities of the future.
- 3. With regard to the past, let me stress that companies operating in Chile with U.S. capital have substantially promoted the human and economic development of the Chilean people and their country. Foreign-capitalized companies have enhanced the personal dignity and self-fulfillment of many thousands of Chileans and their families by providing them with modern skill-training and general education, rapid promotion to positions of high responsibility within these companies, much-increased income and constantly growing opportunities for service to their country. Specifically, U.S.-capitalized companies have opened rich world

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Chamer David Richarder's Annound 2008 de Chairs i Encound Vair Presidentifiers R. Grychall Chamer Committee Committe

H.E. Dr. S. Allende Nov. 5, 1970 Page - 2 -

markets to Chilean exports, and through import-substitution activities they have helped Chile to produce at home much of what it formerly needed to buy from abroad.

- 4. With regard to the future, and this is what is really important to Chile and to the U.S., I feel that the following statements represent the consensus of thinking in the forward-looking managements of most U.S. companies:
 - a) Enlightened private enterprise working in close cooperation with an enlightened government is today the best (I am tempted to say the only) method for development. There are many examples around the world today to prove that this cooperative effort of private sector and government will be even more essential in the future.
 - b) Nationalization of private economic enterprises, with subsequent ownership and management by the state, inevitably exacts a grievous social cost from people and their countries.

Hundreds of thousands of private savers, not only foreign but also Chilean, would be forcibly deprived of their investments in those enterprises slated for nationalization by your platform. There is no evidence that the incoming Chilean government will possess, or can acquire, the resources to afford these hundreds of thousands of private savers the prompt, adequate and effective compensation for nationalization which is specified under international law.

- c) Multinational companies are the most effective element for development today and will be even more so tomorrow, as:
 - The multinational company "goes international" primarily to serve or develop markets. Thus, it will prosper only if the host country prospers. It is committed to the host country's prosperity.
 It plans for the future.

H.E. Dr. S. Allende Nov. 5, 1970 Page - 3 -

- 2) The multinational company is so complex that, to survive, it must be run by an efficient technostructure with a forward-looking philosophy with regard to profits and their distribution. Being basically growth-oriented, it will generally reinvest a large percentage of its earnings.
- (3) The multinational company has prestige and power in its home country and can be the best ally, where it counts, to "sell" the need for overseas development.
 - 4) The multinational company has the technological, financial and manpower resources and the organization needed for success. It operates by objectives, but it is generally still flexible enough to react with the required speed when considering the all important "time factor of development".
 - 5) The multinational company is outward-looking and export-minded. Though it recognizes the value of intelligent import-substitution programs, it does not consider these as an end in themselves.
 - 6) The multinational company is trying hard to learn to become a good corporate citizen throughout the world. Due to the dynamic competitive society which it supports, it knows that if it fails in this very important task, others are there to take its place. In addition, its fundamental belief in a competitive philosophy results in its accepting pluralistic situations in private/public economies without undue fear of being overwhelmed.

I reiterate, the Council of the Americas is deeply concerned about what may happen to Chilean-U.S. relations. It is concerned that many years of collaboration which, in our view, have been to the overall good of Chile and the U.S., will cease. We are, above all, concerned that -- at a time when the private sector-in the U.S.

or. S. Allende 5, 1970 0-4-

has become both a dynamic and innovating force internationally and has acquired the techniques and the will for development — at a time when, due to its responsiveness to what the market wants, it is becoming increasingly involved with the quality of life — the U.S. private sector may be rejected by Chile in exchange for theories which once were new but which are no longer suitable to the pressing new needs of the year 2000.

The Council of the Americas earnestly desires to maintain the historic Chilean-U.S. cooperation. Council representatives are prepared to meet at any time, in any mutually acceptable place, with representatives of your government to work out ways and means of continuing this cooperation. Indeed, the Council and the forward-looking multinational corporations of which it is composed are eager to work with all who seek to build a peaceful, integrated, world-wide economy, devoted to rapid social development.

Sincerely.

Jose de Cubas, President Council of the Americas INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION -

INTERNATIONAL HEXDEWISTERS

10

Keith Perkins

DATE November 15, 19

· LEGH

Hal Hendrix

WHEN REPLYING, PLEASE QUOTE FILE

SIRECT

Ed Korry

After your inquiry about Ed Korry in Chile, I asked Bob Berrelles to put down his current observations on him since Bob has been spending a lot of time lately in Santiago. His current comments are attached.

Apart from this, I might add my personal view. I did not know Korry until he showed up in Chile and I was working for Scripps-Howard. Since he formerly worked for UPI, which S-H still owns, we had no problem in establishing a good working relationship.

At the outset it was obvious to me that Korry was (and still is) one of the dic-hard New Frontier types from the Kemedy administratic He was and is an extremely clever writer and phrase-maker. He also is brash, at times quite arrogant. He is a great name and place-dropper. In many respects he bears a strong resumblance to Peter Jones, which I guess accounted for their former close personal relationship. Like Jones, he has a habit of using people to his advantage until they are of nevero use to him. He also has a habit, I learned, of saying one thing Systito one person and a different story to his next visitor. As one good friend, who has worked closely with him, put it to me recently, "Korry is a man that not even the management of the U.S. government or ITT could keep in harness if he didn't like the fit of the harness."

I feel fairly certain from some of his past comments that he is trolling for a position with ITT when he gets bounced by Stale. If we want two-of-a-kind in the house, that's probably what we would get.

HH:pm

. ec: E.J. Gerrity) With attachment. E.R. Wallace) TITI LATIN AMERICA INC.

BARMIENTO SOO - SUENOS AIRES - ARGENTINA TEL: 48-300176 - CAMET MTLA DA-TRUEZ: 8131184

TO

H. Hendrix

FROM

R. Berrellez

SUBJECT

Ed Korry

DATE November 13, 1970
WHEN REPLYING PLEASE QUOTE FILE

PRIVATE & CONFIDENTIAL

- 1. There are deep doubts among diplomats and U.S. businessmen in Chile that Ambassador Ed Korry, a Nixon political appointee, will survive under the Salvador Allende administration. Korry alienated Chilean friends, antagonized his Chilean critics and embarrassed many Americans with his petulance in the final days of the Frei government.
- 2. Korry estranged himself from the State Department over the Chilean issue and was dealing directly with Nixon on policy and strategy. The source of this information is Korry himself. The Ambassador became a hard liner (economic reprisals, etc., against Chile) after Allende registered a plurality in the Sept. 4 elections while State chose to play it indifferently. Because of this, Korry's diplomatic career certainly seems at an end.
- became a sort of male Martha Mitchell in off-the-record briefings. He scolded some (Joe Novitsky of the NYK Times was one) for emphasizing what he considered the "wrong leads" in raports. Most of the press came away either angry or unimpressed with Korry. In all fairness, however, we should point out that much of the U.S. news media almost always has been hostile toward our diplomats, with or without reason.
- 4. From Embassy friends we've learned Korry is fully aware of his position and has put out a few probes into the business community to sample future opportunities. I've not had a chance to verify this personally.
- 5. Here is a bit of his background for whatever future use it may serve:
- 6. A former newsmen, Korry has been described variously as imaginative, fearless, sharp and even brilliant by some of his closest associates. I can personally vouch for his courage in a crunch: the gutsy final effort to block Allende, so unusual in our diplomats.
- 7. Originally a Kennedy appointee (he had made his mark as a correspondent in Europe), Korry also impressed Nixon who promised him a

../.

job if he ever became president. Korry, who had been ticketed for dismissal after the last presidential elections, took up Nixon on his promise and got the Santiago post.

- 8. It was almost inevitable that because of his Kennedy background Korry would hit it off well with the Christian Democrats and Frei. But, as one of his associates has remarked, he became blindly enamoured of Frei and his political evaluation suffered accordingly. He failed to see through Frei's duplicity until too late in the ball game. This is said to be Korry's most glaring fault as our envoy in Chile. He loved unwisely and too well.
- 9. It is no secret that Korry was highly impressed with Christian Democrat Radomiro Tomio's chances of winning the last elections. We cannot verify that he was actually touting him, but at least two months before the voting he reportedly told friends Tomic would win. He changed later on when it became apparent the contest would be between Alessandri and Allende.
- 10. Although he was close to Frei, Korry apparently did not get along at all with Foreign Minister Gabriel Valdez. He did not attend a farewell cocktail party for the diplomatic colony arranged by Valdez. Korry's official excuse: he had to attend to the dispatch of food parcels to Easter Island. Actually, he was husy on the dismantling of a U.S. installation on the island. Whatever it was, it was clear he did not need to attend to it personally and the snub was all to apparent.
- The press quickly picked it up. One newspaper "Las Ultimas" Noticias" quoted Valdez as saying:

"With no other Ambassador have I had more problems than with this Mister Korry. We have had problems with Argentina, but never formally with its Ambassadors. I cannot stand or accept this diplomat." He added referring to Korry: "What nature does not endow, diplomacy does not lend."

- 12. El Siglo, the communist newspaper, was less generous. It used the vilest language possible (likening him, for instance, to excrement) in describing his character: "gross, petulant, flatulent, aggressive, brute etc."
- 13. It is certain that Foreign Minister Valdez made his personal views on Korry clear to the diplomatic colony. Diplomats could not escape seeing the press barrage.
 - 14. For this reason, Korry's usefulness as a diplomat in Latin

America has been destroyed. And his usefulness in a business capacity in this same area now becomes, I believe, questionable.

cc: Messrs. E. Gentey, ITTHQNY
E. Wallace,
K. Perkins,
E. Dunnett,

Chile

To: E.J. Gerrity

INTER-OFFICE MEMORANDUM FROM: W.R. Morrism

1707 L STREET, N.W. WASHINGTON, D.C. 20036

To:

Mr. W. R. Merriam

DATE November 19 , 1970

FROM:

J. D. Neal

\$48/ECT:

State Department - Latin America Policy

Assistant Secretary of State Meyer told me today that Friday and Saturday (Novembor 20-21), he is taking his key staff members to Airlie House, a think-tank retreat estate in nearby Virginia, for a two-day "policy search" on Latin America.

The only thing he said about his Chile trip for President Allende's inauguration was "there is an unknown X in Chile" and that he wishes he or someone had the answer. He stated the main plea he had from the Chilean people during the final day of his stay was "Please don't push us into a Communist corner from which we cannot return; be patient and we can work ourselves out of this."

He is concerned by the "West Coast peruliarity" of Ecuador, Peru, Bolivia, Chile. This is one of the main reasons for the "policy search" this weekend.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

PERSONAL AND CONFIDENTIAL

E. J. Gerrity

Nov. 20, 1970

FROM

Hal Hendrix

HEN REPLYING, PLEASE QUOTE FILE

SUBJECT Chile-Latin America-HSG

Latin America,

FYI, following the LatAm business plan meeting Wednesday (November 18), Bob Berrellez and I were advised by F. Dunleavy and J. Guilfoyle that Mr. Geneen wished to chat with us about events in Chile and

In response to his questions we expressed our views on the Chile situation, how it came to pass and what was happening -- all of which you are familiar with. The conversation also swept broadly over other Latin nations, such as Argentina and Brazil.

Before it ended Mr. Geneen also raised some questions about State and Ambassador Korry. We expressed our opinions on both, including our belief that State more than any other government agency is responsible for the sad turn of events in the Latin area in general and Chile in particular We mentioned that much of the blame in the latter must fall on Charles Meyer and his chief deputy, John Crimmons. He seemed unaware of Crimmons, indicated we am might be better off without him. I mentioned that we had heard that Korry might be trolling for a position with ITT, since he is a dead duck at State, and after a discussion of him, he made it plain he wouldn't be interested in Korry.

Mr. Geneen also was very complimentary to Berrellez for his recent reporting on Chile. We mentioned that the news from Chile in the coming months likely would be rather grim, in spite of the wishful-thinking optimism prevalent in some circles. He cautioned us not to take personal or physical risks in obtaining our information but not to pull any punches in reporting, grim news notwithstanding.

Mr. Geneen also commented, saying we wouldn't believe it; that he had recently heard from Anaconda and they wanted to know what could be done to help salvage the situation in Chile. He noted it was a fine time for them to be waking up, considering his efforts to rouse them earlier.

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Earlier, during the meeting, Mr. Geneen emphasized that contrary to rumors and speculation that ITT might be thinking of pulling back in Latin America because of recent political events in the area, we are to push ahead and look for new opportunities. He agreed with N. Theofel's comments that things have been equally as bad if not worse in Latin America in the last four decades and over-all we are in good shape. Mr. Geneen was especially complimentary to Theofel at the meeting.

HH:pm

cc: E.R. Wallace, K. Perkins

WACKENHUT SERVICES

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Purnishing security and safety to government

3280 PONCE & LEON BOULEVARD CORAL GABLES: PLORIDA 33134 MONLAND 8-1481

November 23, 1970

Mr.-H. S. Geneen Chairman and President International Telephone and Telegraph Co. 320 Park Avenue

New York, N. Y. 10022

Dear Mr. Geneen:

I am pleased to enclose for your information a study prepared by the Wackenhut Security Studies Center on recent developments in Chile. The Center has prepared this report to provide background information and create an awareness of a serious situation now developing in Latin America.

The Wackenhut Security Studies Center was established to identify and study the growing problems of security both in the United States and abroad. The staff of the Center represents many collective years of top-level law enforcement, intelligence and research experience, both military and civilian. This combination of specialists provides the Center with a unique capability to study security problems.

/ I am confident that you will find the report of interest.

Yery truly yours,

Manuel J. Si Director

Wackenhut Security Studies Center

Enclosure

WASHINGTON ACTION - CHILE

- 10/2: 70 J. D. Neal sent to Mr. Vaky, White House, report of Allende
 Committee conference with ITT Standard Electric and Worldcom.
- 10/28 70 Sent copy White Paper to Charles Colson, Special Counsel to President; Charles Bartlett, Chicago Sun Times; Dr. Danielian, IEPA; Jerry Hannifin Time; Francis Flanagan, W.R. Grace; John Gleason, Owens-Illinois; and Joseph Kraft

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- 10/23 70 White Paper presented to Henry Kissinger, White House, by ITT Washington.
- 10/23 70 White Paper also sent to Mr. Vaky, Assistant to Kissinger.
- 10/22 70 W. R. Merriam met with Dr. Danielian, Tim Stanley and Jack Neal on Chile; possibility of pushing State Department in favorable direction discussed.
- 10/15 70 J. D. Neal talked with Ambassador Korry about U. S. policy toward new Chilean government.
- 10/14: (0 W. R. Merriam wrote Brian Hessier regarding ITT concern of IADB and World Bank pouring money into Chile.
- 10/5 70 W. R. Merriam met with contact at "McLean" -- contact expressed opinion that Nixon Administration would take a "hard line" when Allende is elected.

 10/7 70 HSE kases with acides of the meyerby plan
- 10/7. 70 J. F. Ryan talked with CIA official regarding situation and possible course of action in Chile -- informant said "picture not rosy".
 - 10/5 70 In meetings with W. R. Merriam, CIA contact agreed in principle with all information received from Hendrix and Berrelles.
- 9/30 70 State Department advised J. D. Neal of Allende's plan to "attack foreign private enterprise".
- 9/23 70 B. Goodrich visited with Robert Amerson and Mike Canning of USIS told them of our support of Mercurio, urged them to circulate Mercurio editorials throughout Latin America, and asled if anything we could do as private company. They told him that editorials are being circulated.
- 9/13 70 Ryan and Guilfoyle had dinner with told of his belief that Allende would be elected and take office warned of possible trouble with Chilteleo resulting from "poor service and technical difficulties."

- 9/14/70 JDNeal talked with Mr. Vaky of Kissinger's office. Discussed H.S. Geneen's concern over Chile, his willingness to assist financially up to seven figures.
- 9/14/70 J. D. Noal also informed Assistant Secretary of State Meyer and Attorney General Mitchell of above.

1968

- June 1968 Frank Harkins saw Korry during his visit to Chile to discuss "supermarkets."
- 6/5/68 Ambassador Korry memo written to ITTNY suggesting ITT take strong interest in developing supermarkets in Chile.
- 5/17/68 H. S. Geneen wrote to Ambassatior Korry saying we would "raview the possibility of supermarkets in Chile."
- 4/24/68 Korry's letter to Geneen requesting expansion of supermarkets, encouraging U.S. private investment in Chile (followup on Geneen visit with Korry).
- 3/25/68 Edmundo P. Zujovic's letter thanking Geneen for interest in Chile.
- 3/14/68 Geneen wrote E. P. Zujovic, Minister of Interior, Chile, regarding our "determination to give Chile the best possible service on important projects" Chile may need.

APPENDIX III

ITT INTERNAL DOCUMENTS, 1971

H. P. JAH 25 79

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January 21, 1971

MEMORANDUM TO:

Mr. H. S. Geneen

SUBJECT:

CHILE

Attached for your information is a memorandum from Benny Holmes outlining some of the recent actions taken by the Allende government. These are being handcarried up as people return from Chile.

W. Guilfoyle

Enclosure

cc: Messrs. Bennett, Dunleavy, Perry, Aibel, Gerrity, Hamilton, Knortz RECETVED

To:

Mr. J.W. Guilfoyle

J.W.Q. January 18, 1971.

From: B.W. Holmes

I am informing you herewith of different situations which have occurred lately and which you might be interested in knowing:

Banco Crédito e Inversiones. In Resolution of January 15, 1971 of the Bank Superintendency, that organization took charge as of that date and without determining for what period, the administration of Banco de Crédito e Inversion with all the powers that the law and By-laws grant the Board of Directors and Manager.

The resolution is based on the fact that the Bank has incurred in reiterat fines due to exceeding the maximum loanable amount and other infractions which the resolution does not detail.

The Bank's Board of Directors has stated that even though it is true that fines have been applied, they commonly occur in banking life and that the Superintendency, in view of the Bank's explanations, has always proceeded to lower them.

With regard to the other infractions, the Board of the Bank has stated the it cannot refute them due to their vagueness.

Banco Hipotecario. Banco Hipotecario de Chile has also been intervened by th Bank Superintendency. The parties have not given the reasons for this intervent

El Mercurio. - The Direction of Tax Delicts of the Tax Bureau ordered an investigation by surprise of Empresa Periodística El Mercurio, taking over all of the documentation of the Sociedad to verify compliance with tax laws.

The investigation suffers from no vices in procedure. El Mercurio estimates that it does not deserve this treatment, due to always having given faithful compliance to tax laws and interprets this as an obstacle to the free exercise of its functions. In the last days El Mercurio has followed a line of definite opposition. It has also been tried to link El Mercurio with Banco de A. Edwards y Cia., at present intervened due to infractions in the International Exchange Law.

The former President of El Mercurio was also President of Banco de A. Edwards y Cia.

The same measures were taken at Editorial Lord Cochrane which is the property of the same owners of El Mercurio.

- 2 -

Editorial Ziu-Zag. - Due to a labor conflict, the Arbitrating Court appointed to know of this, which majority is made up by Government representatives and of the unions, issued a verdict increasing wages, salaries and other social benefits by 67.3%.

This verdict places the Empresa in condition of not being able to comply the decision, without ominent danger of bankruptcy within a short period.

Editorial Zig-Zag is operating practically without profits and to obviate this situation the arbitrating verdict resorted to the theory that Zig-Zag is an "economic unity" with other companies with which it is related, considering that such economic unit has profits which permit it to comply with the verdict.

<u>Vidrios Planos.</u>— In Resolution Nº 60 of January 15, 1971 of the Direction of Industry and Commerce, based on the fact that it has been verified that Vidrios y Cristales Lirquén S.A. has stock of manufactured glasses which have not been delivered to their habitual private clients and that the manufacturers have conditi the sale and discriminated with respect to the distribution, the stock of window glasses existing in the different warehouses of the corporation and of the distributors which the resolution mentions, has been taken over.

cc. Messrs. Stimson Dillenbeck Goldman

ec.

PERSONAL'AND CONFIDENTIAL

February 4, 1971 .

MEMORANDUM TO: MR. H. S. GENEEN

SUBJECT:

BOARD NOTE - CHILE

FOR INFORMATION ONLY

Political and Economic

Government pressure on commercial banks is being intensified. The Allende government recently ordered the placing of supervisory inspectors with far reaching powers in every bank throughout Chile -- a move which was decried as being illegal and unconstitutional. (This is beside the fact that to date, four private banks have already been "interviewed" outright). At about the same time foreign exchange control's were further tightened. All banks must now apply for prior approval from the Central Bank to open foreign credit lines, and refinance existing facilities, to honor clients' foreign exchange payment orders and pay our foreign exchange from existing deposits.

Meanwhile, expropriations of foreign owned mining companies continues; the most recent case involving Bethlehem Chile Iron Mines, a subsidiary of Bethlehem Steel. Propsals for the expropriation of all U.S. owned copper mines have been presented to Congress which call for indemnification over 30 years with 3% annual interest. Moreover, the government would be empowered to determine amounts to be paid which would be lessened by whatever amount is considered to be excessive profits earned since 1955. The Allende regime is prepared to take these measures to a popular referendeum in the unlikely event that Congress balks and rejects these amendments.

It was further announced that the new Marxist Government plans to establish neighborhood peoples' tribunals to try minor offenses such as anti-social behavior.

Internal Situation

On my way to the Area Meetings in Buenos Aires, I spent time in Santiago last week-end. The report that follows is a summary of my activities and impressions gathered during this visit.

February 5, 1971

During my visit to Santiago last weekend I spent an hour and 45 minutes with Ambassador Korry. Gist of the conversation was he feels Allende is in complete control and is moving towards a complete Socialist/Communist government and will continue to do it within the laws available so long as they serve his cause. He is targetting his tactics towards obtaining a majority in the April municipal elections.

Korry showed me a copy of the revised Constitutional Amendment on copper which he had just received about an hour before from a contact within the government. This is more severe than the original one, in fact, becomes confiscation rather than expropriation. The plan briefly will be to take over the balance of the copper companies; appoint a court of five members, who will have full and complete power to determine compensation, if any, the companies are entitled to. The board will rule upon improprieties in past practices, excess profits, illegal acts, etc. This court of five members will be made up of three members appointed by President Allende, one from the legal profession and one from the courts. The outcome appears to be reasonably sure but timing is unknown. The Amendment has not gone to Congress for approval, but Allende strengthened his hold on his Party that weekend by electing a young radical head of the Party who was previously trained in Cuba.

There are over sixty Cubans, most of whom have been residents in our new hotel, working with various branches of the Chilean government.

CHILTELCO

The rate case was presented to the Board on Friday, January 29. There were no government Directors present as they have not been officially named. Schatz, Servicios Electricos representative, objected to presentation of the rate increase, but finally agreed to have it entered in the Minutes to be discussed at the February 8 Board Meeting for implementation as of February 20. His agreement was based on an exception that he neither approved nor disapproved and made note of the fact that there were no Fiscal Directors present as required.

Following the Meeting he told Benny Holmes that Eduardo Novoa would be one of the government Directors. He is presently the head of the legal defense for the President, running a group of lawyers who operate in behalf of the President's Office and the government. The fact that he is appointed to a directorship which should be below an assignment based on his present position and that he, as a young lawyers in 1958, led the opposition for signing our Convenio, will present some continuous, serious problems.

On Monday, February 1, Benny Holmes received a letter from the Minister of Interior rejecting the prior approval of our Advisory Contract. This Contract had been approved at the October 23, 1970 Board Meeting with full concurrence of both Fiscal (government) Directors. The rejection was based upon interpretation of the 1958 Convenio and for the following reasons:

- Lack of fundamental planning coordinated with the national development of telephony.
- 2. Delay of operational conditions.
- Degrading (sic) of such extent in the telephone service which could well be close to an operational collapse.
- Installation of obsolete equipment with which incalculable damage has been made to the development of national telephony.
- 5. Disastrous service to subscribers.

The impact of this letter is obvious and the harrassment continues. There appears to be no legal basis for rejecting the Contract. This matter is being reviewed with both Headquarters and Santiago legal. A meeting is scheduled for Friday afternoon in New York.

Gash Flow We reviewed cash flow of both Chiltelco and CSEAC. At the present rate Chiltelco appears to be able to go through the latter part of February subject to rolling over the \$2.5 million Sud America loan on February 15. At this time there appears to be no serious stumbling block in doing this but final checks with AID and Central Bank in Chile are boing made this week and continuing into next week. In regards to the factory; working with Charlie Silver and Dan Gillen we have come up with Dan can borrow money at the local level by pledging accounts receivable or assets and this is being cleared with Treasurer's before Dan proceeds next week. The rate increase is absolutely necessary for both the telephone company and the factory to continue to operate without an infusion of cash.

Treasurer's have preliminary indications that several million dollars of borrowing could be available from the Eurodollar market with government guarantee. Benny Holmes is requesting both Central Bank and GORFO in writing to provide such guarantee. Expect we will hear from this by the end of next week, February 12.

In summary, as has previously been reported to you, the Communists will accomplish what they set out to do. There appears to be no interference or assistance from the United States. The Ambassador says he is frustrated—he gots no support from Washington, and in fact, it has been announced in the aewspapers he will be out within two to three months. (He has not been efficially advised.) The telephone company will be in for harrassments on acceptance of new offices, services, probable labor difficulties and legal approaches to question our Concession that occurred above on the Mivisory Contract.

_ 3 _

In spite of all this, Benny Holmes' attitude is good. He wants to fight. He can arrange for a visit in early March, when the President returns from the beach, for a senior representative of ITT to discuss the telephone company's future. I will review this with Tim Dunleavy next week. Benny is facing a problem with his people in that a large number of management and senior supervisors will receive substantial salary cuts when the new law goes into effect limiting salaries paid by any company that has government participation. This is multiplied by implementation of new tax payments and speed up of prior payments. Al Clarke, of my staff, and Personnel are aware of the situation and we have some ability to assist Benny's senior staff if it becomes necessary.

Guilfoyle

cc: Messrs. Bennett, Dunleavy, Gerrity

Mr. Pierce N. McCreary Mr. C. D. Sichaelson Mr. Frank R. Milliken

I am informed that representatives of ITT, possibly including Harold Geneen, will be meeting with Mr. Nachmanoff of Eenry Kissinger's office in Washington today to explore the White House attitude toward dovelopments in Chilo.

I am informed also that C. Jay Parkinson has written a strongly worded letter to Dr. Kissinger and Secretary of State Rogers demanding action of some sort by the U. S. Government in regard to the proposed expropriation of Anaconda's interests in Chile. I am endeavoring to get additional information concerning Mr. Parkinson's letter.

G. E. D.

GED:efg

bcc: Mr. W. B. Jones Mr. L. Ziffren

H. P. FEB -8 71

HO

February 8, 1971

MEMORANDUM TO: Mr. R. E. Bennett

Mr. F. J. Dunleavy

Mr. H. Perry

Mr. H. J. Aibel

Mr. L. Hamilton

Mr. H. C. Knortz

Mr. J. M. Stimson

Mr. N. Theofel

The attached report is very informative.

W. Guilfoyle

30/Jan 17

ፕብ:

Mr. Hel Handrig - ITTHONY

FROM

Berrollez - c/a Chilicico

SUBJECT:

Chile

•

c.c. Mesure. Gerrity, Wallace, Ferkins, Dunnott - ITTHONY

Guilloyle - c/o Chillelee

Gonzalez - Sheraton, Buenes Aires

The overall Chilean scene has not changed appreciably since our last report.

As concerns us, however, the situation is somewhat grimmer: the government is buying up control of credit sources while holding firm against price increases. Wage "adjustments" are permissible. The inflation rate for January is expected to be zero.

As to how these conditions relate to our operations, this is a consensus:

CHILTELCO - The request for a rate increase will not be allowed. This has been the experience of other companies whose requests have been rejected. Examples: Chilectra, power utilities company. Although the increase was approved and published in the official gazette, it was subsequently rescinded. Clothing, prices lowered 10 per cent for cash sales. Bread, raise denied. Insted, a new official bread - Pan Unice - was defined and devised. The state bread costs more for the poor and less for the rich - the underprivileged's consolution prize: they cat the same bread as the rich. Public transportation, increase denied. But since operation costs were too high, the government arranged a subsidy and the price to the public was lowered from an average .75 Escudes to .50 Escudes. Natural Gas, although GasCO automatically used to raise its tariffs every January

let. by a percentage equal that to the rise in cost of living - according to its concession agreement -, the government refused the hike this year.

A prevailing view is that there be no immediate government rejection of Childeleo's request. Instead, the request will be allowed to wallow in a becomeratic moracs until accumic overtakes the company.

This view holds that for reasons of international public cointon (where on image of moderation is regarded important at this stage by the government for internal and external political and economic strategy) the administration will follow this course rather than move toward nationalization.

Another opinion is that the rate increase petition will be used by the government to discredit the company publicity through the news media and other channels, accusing the company of inferior service and enrichment at the expense of Chileans. (It should be remembered that Economy Minister Vuskovic two months ago promised "public discussions" for approval of any raise of prices or service tariffs). In this mannes, Chillelco could be converted into a political issue with valuable popular impact - a condition that the company does not by itself have because it serves mostly middle and upper class Chileans.

STANDARD ELECTRIC - No doubt of the company's anemic financial condition and of its own need for technology, particularly in this field, the government may opt to acquire interest in the company through a much-needed toan. Having ITT as a partner will also redund to the government's image abroad.

HOTEL FAN CRISTOBAL - U.S. Embassy source reports that the government may be interested in acquiring the hotel for the Foreign Ministry which needs office space. The same source does not put much value in this report which came from a leaser ministry functionary, Prancisco José Gyarnún, who reported that Foreign Minister Glodomiro Almayda had expressed interest. It has been learned from other Fources, moreover, that the Foreign Ministry has nearly closed a deal to buy the Club de la Unión for that purpose. This is the current picture internally:

- 1. The government continues to move implacably toward the announced goal of socializing the nation. Because it has to proceed through established democratic institutions (courte of law, congress) it is employing a flexible strategy skillfully conceived and implemented.
- 2. For instance, what it cannot achieve through legal or legislative means, it will seek to impose through force or the creation of defacts conditions.
 Eamples:
 - (a) Land and property seizures. This is being accomplished by horder of landless peasants or jobless poor, generally in interior areas, who ill seize the land outright or occupy finished and unfinished housing projects. Although this is illegal, the government has dene little beyond condemning the acts and premising relief through new laws punishing the squatters. In turn, the property owner who ousts the squatters and this has happened already finds himself confronting the law, for sundry and obscure infractions.

A sample of official stitleds regarding the equations at the town of Cautha, the government is using an emergency fund to feed pousants who seized land and ate up all the goodies, including livestock. Use of the emergency fund has calmed a tense situation among hungry equations.

(b) Bank and crodit control, the key to stiffe middle and upper-class opposition and destroy undesirable commercial activity. Last December President Allende announced the government would introduce the following day in Congress a draft law nationalizing banks. While the bill was being debated, he said, the government would offer bank ctockholders an executivity to well out at preferential terms above what it would pay once the banks were natio-. , nalized. Soon thereafter, the government opened up a massive radio-TV, nave media campaign pushing the purchase of bank stocks which would be paid partially in cash, partly in short-term bonds adjustable to currency fluctuations. At this writing, the government has acquired more than SIK MILLION bank shares. Out of 26 commercial banks, the government now has control of five; three other have been intervened, which means thay are under indefinite official control. Negotiations have begun for the acquisition of four foreign banks. Meantime, the government has not yet introduced the bank nationalization decrea to which there are signs of growing opposition. Some banks are urging their stockholders not to sell. They've launched newspaper ads pointing up the government is buying the stocks at prices fas under their real value.

(c) Internal accurity, an area where Cuban specialists are known to be deeply involved. The government sent up a trial balloon to sample the sir on a law creating neighborhood tribunuls, or "people courts" as they are known in Red China. Cuba and other communist countries. Although the draft law has not yet reached congress, the initial reaction in congress and among the people (in Santiago, at least) has been negative. The Christian Democrate are solidly opposed, and this just about dooms the bill. What is even more significant is the resistance to the bill thrown up by the Radical Party, member of the ruling condition. This is the first sign of a fissure within the coalition.

El Siglo, the Communist Farty organ, fixed up to the opposition with a blant at the Christian Lemocrats as "reactionaries" who are depriving the underprivileged of equal rights under the law. El Siglo said, furthermore, that such courts exist in the USA and Britain. This hald lie has not yet been refuted.

All this points up a situation of deep concern for the militant leftwing extremiats in the coalition who complain that although they have the governing tools in their hands, they DO NOT HAVE THE POWER. So long as democratic institutions such as courts of law and congress survive, the leftwing extremists feel they cannot impose the kind of total revolution they regard as necessary to put Chilo on their idea of a true revolutionary course.

The most militant factions in this extegory are the Macist MIR and the

MAPU, a splinter of the Christian Democrats. Doth ore small and sold to be well armed. Serious students of the Chileen scene foresee a future confrontation between the extremists and mederates in the coalition.

What appears certain to sharply alter the course of events here is a decisive victory by the ruling coalition in April's municipal elections. A 51 percent or better performance by the government will be translated as a mandate by Allende (he did not get one in the presidential election) who is then expected to try to carry out his pladge to discoive congress through a referendum - an instrument he'll use more and more to impose full state control over the country.

The government is taking every precaution to insure victory.

Aroused to the fact they're playing a different kind of ball game than programmed, the Christian Democrats are slowly coming alive. They're out to shore up their electoral lines. Ex-President Frei has been active in this. An element that shapes up as considerably important to the fortuned of the opposition is the survival of its news media, particularly El Mercurio. Although he has repeatedly said he favors a free press. Allende is known to be extraordinarily sensitive to criticism, especially from El Mercurio. It's likely, under these circumstances, that the government will strive to find a legal way to silence the paper which is having a rough time financially and can use every bit of help - moral and otherwise.

TIDBITS - Trouble is predicted for the copper industry if it is nationalized.

The cost of producing one pound of Chilean copper is estimated at some

36 U.S. cents. The government's budget is based on copper revenue at

46 cents a pound. A price decline below that will mean serious financial
problems for the regime.

Solaura of the mines also menas Chile will quickly need to find sources for spare parts and savvy to operate highly intricate equipment introduced here by the U.S. companies in order to make copper mining profitable.

Many in the business community foresce the ill effects of the government's economic policy coming sometime this winter. July-September. Food production is expected to be severely affected.

There are unvertied reports that the prices for fruits are considerably below previous levels because neighboring constrict (notably Branit) are not buying the Chilean products.

BANKS AND CREDIT

(Santiago Jan.29 1971) .-- Expensive as it was, credit in Chile has historically been a tool local corporations and industries have used to finance their activities and to meet payrolls. Though no official figures are available, usually well informed source at the Central Bahk say that more than 75% of local industries "survive only on the basis of a constant flow of credit."

If so, control of credit becomes an important political tool.

This justifies the efforts of the present Administration to seize control of banks as soon as possible, even before the naticalization and statization of banks is approved or discussed in Congress.

At the time of writing this report some 6.000.000 shard had been sold to CORFO by small and large Commercial Banks stocholders. After 18 days of heavy propaganda, which even included TV commercials during the National Soccer League finals, the Government car claim success.

Through CORFO, the Government now holds control of Banco O"Higgins, Banco Israelita, Banco de Concepción, Banco de Valdivia and Banco de Osorno y La Union. Banco Edwards, Banco de Crédito e Inversiones and Banco Faramericano have been interva-

ed on different grounds for periods which have only been defined for "as long as the investigation requires."

. Conversations with foreign banks have also been open on purchasing conditions. The Government claims foreign bankers have shown great interest in selling under the conditions set by the Administration.

All this shows an effort --a very well coordinated effort-- to seize control of banks and banking credit PREVIOUS TO THE APRIL ELECTIONS for obvious reasons.

CREDIT FIGURES

As of June 30,1970, the State Bank and all other 25 private banks operating in Chile had issued credits for a total 5.835 million delicate escudos. 96,3% of this figure (5.624, million escudos) were credits given to private corporations and industric or farmers. Of the 5.624 million escudos given in credits to the private sector, 37,8% was used by industry; 25,2% by agriculturand fishing activities; 15,9% by commerce; 5,8% by construction; 1,3% by transport and storage; 1% by mining; 6% by public utilities just to cite the major item.

Distribution of credits by banks as full const

- 5 -

Distribución de las colocaciones bancarias an moneda corriente por bancos

En millones de escudos

aicos	Diciembra 1960		Junio 1970		Variación 🕈	
	Monto	¥	Monto	 %	Pominal	Real (1)
1. Estado	2,423,5	47,3	2.732,8	46,9	12,8	- 9,0
2. Chile	733,5		978,2	15,1		- 4,1
3. Sud /mericano	216,5	4,3	252,2	4,3	16,6	- 5,9
4. Crédito	213,2	4,2	232,6	4,0	9,1	- 12,0
5. Espatiol	193,1	3,8	245,5	٤,2	27,1	+ 2,6
G. Edwards	167,0	3,3	183,3		9,8	+ 11,4
7. National City	139,6	2,7	171,5			- 0,8
8. 0corno	138,0	2,7	157,9			- 7,3
9. Trabajo	125,8	2,5	137,5			- 11,7
0. Francis	- 99,3	2,0	124,7			+ 1,4
1. Concepción	2,68	1,7	111,6	1,9	28,4	+ 3,6
2. Londros	90,3	1,6	95,4		19,8	- 4,1
3. Israelita	53,8	1,3	74,6	1,3	16,9	- 5,7
h. O'lliggins	61,8	1,2	69,6	1,2		- 9,1
i5. Amirica	57,5	1,1	69,1		20,2	- 3,0
6. Continental	54,9	1,1	62,7	1,1	14,2	- 7,8
7. Fandi de Lune	45,5	0,5	49,5	Ú,Y		- 11,7
l8. Talca	33,8	0,7	40,8	0,7	20,1	- 3,1
l9. Valüivia	20,7	0,4	23,1	0,4	11,6	- 9,9
20. Pacífico (2)	17,8					
1. Sur Je Chile	16,5	0,3	23,7	0,4	43,6	+ 15,9
22. Comercial Curicó		0,3	18,0	0,3	25,9	+ 1,6
23. Do Brasil	14,2		15.1		6,3	- 14,2
24. Chileno Yugoslav	0 12,7	0,2	16,4		29,1	+ 4,2
25. Chillán	11,9	0,2	14,1 10,1	0,2	18,5	- 4,4
26. Llanquibue		0,2				+ 34,1
27. Ragional Linares	10,0	0,2				- 10,4
28. Constitución	5,1	0,1	8, 8	0,1	33,3	÷ 7,6
Totales del sistema	5.073,9	100,1	5.835,1	100,0	15,0	7,2
denos colocaciones						
interbancaries	2,6	0,1	0,9	0,0	245,1	+ 179,3
Totales nutos:	5.071,3	100,0	5,835,2	100,0	15,1	- 7,1
Al soctor privado	4.838,1	95,4	5.624,6	96,4	16,3	~ 6,S

⁽¹⁾ Cifras deflactadas por la variación del índice de precios al consumidor en el semestre. Deflactor 1,239.

⁽²⁾ Se fusionó con el Bunco Español.

CAMED CRIPTERV.VQ

664

421755 ITTO BIVV 421755 ITTQ UI

System Confidential

THIS IS A CRYPTEL MESSAGE 240 INDICATOR "YANKEE" THIS IS 3520035 CHILTEL

INTELCO NYK

RECD IN CRYPTO RECD 4:20PM EST FS ITT COMMUNICATIONS/664-B

PART ONE OF FOUR PARTS

TO: STIMSON INTELCO NYK FROM: HOLMES CHILTELCO SANTIAGO

DATE: FEBRUARY 10, 1971

COPY GIBBS AND HOLMES INTELCO NYK

SYSTEM CONFIDENTIAL

2/137-Z PART ONE OF FOUR PARTS

CHILTELCO VEEKLY REPORT

I. NET INCOME

BUDGET ACTUAL VARIANCE

JANUARY 31

499 30 (A) 529

TOTAL YEAR

18,548 18.548

(A) LOWER EXPENSES 20, LOWER INTEREST 135, LOWER SPECIAL RESERVE CORFO 178, OFFSET BY LOWER REVENUES (178), HIGHER INCOME TAX (125).

II. STATION GAIN

TO FEB. 5 VARIANCE YEAR TO DATE BUDGET VARIANCE BUDGET (2,832) 2,434 839 3,671 392 (2.042)

III. FINANCIAL ACTIVITIES

REVENUES

BUDGET ACTUAL VARIANCE

JANUARY 31 TOTAL YEAR 5,525 5,525 - (A) 94,119 94,118

(A) LOWER SPECIAL RESERVE CORFO 178, HIGHER MESSAGE TOLLS DOMESTIC 156, OTHER 2, OFFSET BY LOWER SUBGODINGS OF STATION REVERUES (187) LOVER INSTALLATION MOVE AND CHANGE CLARGES (145).

END OF PART ONE OF FIVE PARLP

System Commacular

EXPENSES ACTUAL BUDGET VARIANCE

JANUARY 31 4,480

107AL YEAR 60.158 60.158 -

- (a) Lover Maintenance 20. System Confidential
- 2. INVENTORIES
 INVENTORIES AS AT JANUARY 31, NOT AVAILABLE YET.
- 3. COLLECTIONS
 NOT AVAILABLE YET.

IV. SERVICE

1.	O/O COMPLETE INITIAL ATTEMPT	61.8
	INITIAL TROUBLE PER 100 STATIONS	2.8
.3.	SPEED OF ANSWER (IN TEN SECONDS) DOMESTIC - DAY	61.2
	BK OFFICE OFFICE	52.1

- 4. SERVICE PROBLEMS GENERAL NO CHANGE SINCE LAST WEEK.
- V. MAJOR OUTAGES

 CABLES NONE

 COE NONE

VI. CURRENT EXPANSION PROGRAM STATUS

1. CENTRAL OFFICE PROSLEMS

GRADINGS IN SANTA LUCIA I, PEDRO DE VALDIVIA I AND PRINCIPAL II ARE STILL ON HAND BY CSESAC. AS RESULT OF ACCEPTANCE TESTS FOR APOQUINDO AND PRINCIPAL IV, MADE BY CTC, CSESAC IS NOW WORKING IN THE CORRECTION OF SAME DETAILS NOT APPROVED. ACCEPTANCE TESTS FOR THE OTHER EXCHANGES STILL PENDING. X-BAR CHAIN IN SANTA ISABEL WILL BE COMPLETED BY CSESAC DURING FEERWARY. RE-GRADINGS OF X-BAR CHAIN IN PEDRO DE VALDIVIA II ARE IN PROGRESS AND VILL BE COMPLETED DURING THE NEXT 30 DAYS.

end of part two of four partings System Confidential

PART THREE OF FOURPARTS

2. OUTSIDE PLANT PROSLEMS NOTHING NEW TO REPORT.

System Confidential

VI. OTHER PROPLEMS

L. POLITICAL

IN ORDER TO MAKE A BALANCE OF THE FIRST NINETY DAYS OF HIS GOVERNMENT AND TO EXPRESS HIS OPINION ON NATIONAL POLITICS THE PRESIDENT OF THE REPUBLIC HELD A MEETING WITH THE PRESS. THE PRESIDENT OF THE REPUSEL RELD A RESTING WITH THE PRESS. THE PRESIDENT STATED THAT THE MOST DIFFICULT PROBLEM FACED BY HIS GOVERNMENT HAS USEN FARMS WHERE SEVERAL LABOR DISPUTES AND FARM TAXEOVERS BY PEASANTS AND AGITATORS HAVE TAKEN PLACE. IN THE POLITICAL PART OF HIS COMMENTS THE PRESIDENT MADE A STATEMENT WHICH HAS BEEN HARSHLY CRITICIZED BY THE OFOSITION, HE SAID THAT HE WAS NOT THE PRESIDENT OF ALL CHILEANS, ADDING THAT HE WAS NOT THE PRESIDENT OF ALL CHILEANS, ADDING THAT HE WAS THE PRESIDENT OF THE POPULAR UNITY BUT THAT HE RESPECTS ALL THE CHILEANS AND HAS THE ODLIGATION TO BENEFIT THE LIFE OF ALL CHILEANS.

HE ADMITTED THAT UNEMPLOYMENT HAD INCREASED IN THE FIRST THREE MONTHS OF HIS MANDATE POINTING OUR THAT THE CAUSE WAS SOME ATTRITION IN THE CONSTRUCTION INDUSTRY. THE PRESIDENT FINISHED HIS EXPOSITION STATING THAT HE WILL INVITE FIDEL CASTRO TO VISIT CHILE AFTER THE

MUNICIPAL ELECTIONS IN APRIL.

THE HOUSE OF REPRESENTATIVES REJECTED BY 50 VOTES VERSUS 35 AND IS ABSTAINTIONS THE CONSTITUTIONAL ACCUSATION PRESENTED BYD THEX NATIONAL PARTY AGAINST THE XINISTER OF JUSTICE. THE ABSTAINTIONS CORRESPOND TO THE CHRISTIAN DEMOCRATS.

THE SENATE HAS CONTINUED PROCESSING THE CONSTITUTIONAL AMMENDMENT TO NATIONALIZE THE COPPER INDUSTRY AND, THE SALARY ADJUSTMENT EILL

FOR 1971.

END OF PART THREE OF FOURA

System Continuental

SPART FOUR OF FIVE PARTS

2 ECONOMIC

System Confidential

A NEW BILL QUALIFYING THE OCCASIONS WHEN EMPLOYEES CAN BE SEPARATED FROM THEIR JOBS IS BEING DISCUSSED AT THE HOUSE'S LABOR COMMISSION. THE IDEA IS TO MAKE IT MORE RESTRICTIVE FOR THE EMPLOYERS.

CORFO INSTRUCTED ITS AFFILIATED COMPANIES TO TRANSFER ALL OF THEIR BANK ACCOUNTS FROM PRIVATE BANKS INTO THE STATE BANK OR OTHER STATE CONTROLLED BANKS. THE MINISTRY OFCF ECONOMY STATED THAT ALL GOVERNMENT FUNDS WILL EVENTUALLY UNDERGO THE SAME TREATMENT.

A NEW BILL WAS PASSED IN RECORD TIME GRANTING AN ADVANCE, EQUIVALENT TO THE COST OF LIVING INCREASE IN 1970, TO ALL GOVERNMENT AND PRIVATE EMPLOYEES IN FEBRUARY. A SIMILAR BILL WAS PASSED IN JANUARY.

COST OF LIVING INCREASED 1.4 O/O IN JANUARY 1971 AS COMPARED

WITH 6.8 O/O IN JANUARY OF 1970.
THE GENERAL MANAGER OF BANCO EDWARDS WAS CINCONDITIONALLY RELEASED FROM JAIL WHERE HE STATED SINCE THE BANK WAS INTERVENED.

VII. RED FLAG ITEMS

1. PABX PROBLEMS NOTHING TO REPORT.

- 2. TOLL SERVICE PROBLEMS NOTHING TO REPORT.
- 3. SERVICIOS ELECTRICOS PLEASE SEE MY TELEX TO YOU 2/126-Z.

HOLMES

ORIGINAL TO MR STIMSON COPIES TO MR GIBBS MR HOLMES/NY

System Confidential

(3) LATIN AMERICAN TEL.

-	AIBEL	DUNLEAVY	GERRITY	RUNYON	MC CASE	SCHAFFER .	
١.	BENNETT	MURTAUGH	HAMILTON	KNORTZ	MC REILL	WEADOCK	
٠.	COOKSON	CENEEN	HANWAY	KELLER, J.H.	PERRY		=
=		BRITTENHAM	GUILFOYLE	MC NITT	STOLLE		
	•	CROSBY	. KOLLMEYER	NOZNITZ	PIERSON		
		GARRES					

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

Mr. F. J. Dunleavy

FROM E. J. Gerrity

.SUBJECT

Chile-Anaconda

F. J. Laurences

Attached are memorandums from Jack Neal concerning Anaconda's guarantee situation in Chile.

Briefly, State has advised Anaconda that since it sold 51% of its holdings in Chile to the Government its guarantee only covers the 49% it retained. This is despite the fact that Anaconda claims it made the sale under pressure and received only about 40% of the actual value.

cc: Messrs. H.S. Geneen

J. W. Guilfoyle

J. M. Stimson

R.R. Dillenbeck

K. M. Perkins/E. R. Wallace

H. V. Hendrix

TO:

Mr. E. R. Wallace

DATE: February 10, 1971

FRON

Jack D. Neal

\$U#J\$CT:

Chile - Anaconda Investment Guarantee Situation

When President Frei of Chile started action against Anaconda Copper in 1969, the company consulted the Department of State in Washington which advised that the Chilean proposal to buy 51% of the company should be accepted.

Chile agreed to pay Anaconda \$180 million in twelve years by 24 payments, beginning July, 1970.

Anaconda states the sale was made under duress and that it received only about 40% of the actual value.

The properties involved in the deal were 100% covered by investment guarantees. However, the Department of State now has informed Anaconda that since the company agreed to the sale of the 51%, this proportion of the investment guarantee is lost.

Anaconda contends it should receive 100% of the investment guarantee loss the cash it obtains from the 24 payments. The first two payments, July, 1970 and January, 1971 have been met.

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WARHINGTON, D.C. 20036

To:

1

Mr. E. R. Wallace

- Dels February 10, 1971

FROM:

Jack D. Neal

!

Supercre

Chile - Anaconda Investment Guarantee Situation - Part II

Raiph Mecam of Anaconds called again with the following additional information regarding their investment guarantee problem in Chile;

The State Department informed Anaconda that its investment guarantee became invalid when (1) it "voluntarily" sold 51% of its interest in certain mining properties, (2) transferred them to new companies and, (3) when, at the same time, it contracted to sell the remaining 49% to the Chilean government.

The State Department advised Anaconda it would not have issued an investment guarantee in the beginning had it known these circumstances would arise. [How did Anaconda know this would happon?!]

The Department also said AID regulations prohibit under-writings when securities are incumbered. This relates to the 51% bonds now in New York.

cc: Mr. E. J. Gerrity, Jr

Mr Charles Goldinas

Mr. Hal Hendrix

Mr. Ed Dunnett

ANY KARRAGES

Mr. Pierce N. McCreary Mr. C. D. Michaelson Mr. Frank R. Milliken gir. chiri

As reported a few days ago, representatives of ITT met with Arnold Nachmanoff in Henry Rissinger's office to discuss the Chilean situation. I am informed that Nachmanoff stated that Dr. Kissinger and his staff were very pleased with Senator Javits' speech at the OPIC seminar in New York and would like to see similar speeches by other prominent public officials along the same lines. Nachmanoff reportedly indicated that this approach is believed more likely to be effective than pleas to the State Department.

There is also a report that the State Department has warned Chile about the ramifications of the proposed expropriation of the large mining companies. I have not been able to verify this report.

G. E. D.

GED:ofg

cc: Mr. W. B. Jones Mr. L. Ziffren TO: Chile Ad Hoc Committee Member

what we discussed this morning. Please feel free to call on Jack Neal or me anytime you have a question. We, of course, would be most anxious to hear from you about any action you have taken in the three so-called pressure points.

Regards

BUP

2-9-71

W. R. MERRIAM
ITT Washington Relations

MINUTES

CHICE AD HOC COMMITTEE MEETING

FEBRUARY 9, 197

For the benefit of the representatives who did not attend the first get-logether on Chile, Neal and Merriam gave some background material and reported on our visit at Kissinger's office on Friday. The de Onis article and Javits speech of last week were discussed in depth. It was suggested that more speeches like the one Javits gave be urged on various members of Congress during the next few weeks.

Anaconda does not expect its expropriation to go through until at least June because friends of the company are doing everything they can to delay the legislation in Santiago. After the amendment is passed, which it will be, sixly days must chapse before the takeover.

All conferces were urged to make a presentation to Kissinger's office (only ITT and Anaconda have done so) and at the State Department to Irwin, Rogers, Meyer and possibly the desk officers. Jack explained that aide memoires should be left because these papers, or at least paraphrased versions of them, are sent to Santiago to the American Embassy.

A further pressure point was discussed: the londing agencies. Ralph Mecham of Anaconda said that World Bank people had been in Santiago this past week talking to officials of the Chilean government telling them that if they went ahead with their takeovers, it was quite possible that no more loans would be made. This was an exploratory and low-key visit.

The Anaconda rep explained the Wall Street Journal story of today saying that the State Department had practically put a gun to their head and urged them to accept the sale of 51 percent of their property to the Chilean government. Now that exprepriation is a reality and the fact that the price given Anaconda for its 51 percent amounts to about 40 percent of the value of the mines, AID has told Anaconda that the 60 percent of the uncollected dollars were not eligible for guaranties—after State practically forced Anaconda to accept the lesser amount from Chile. At the February 1 speech of Senator Javits in New York, an Anaconda vice president facetiously mentioned AID's statement on not paying the guaranty, and he thought he should mention this in the annual report. Hence the story today.

The Raiston Purina rep is quite concerned about a bill being pushed by Representative Pelloy of Washington which would embarge all fish and fish products experted to the U.S. from countries which seized boats outside the twelve mile limit. This in itself is not so bad, but he is afraid that other

products may be included and it might affect many American companies, who are needing products tack to the U.S. Hearings will beginnes this bill in California in a couple of weeks.

All of those present agreed to exchange information with each other using this office as a command post. They also were anxious to continue the Ad Hoc Committee, and the next meeting has been tentatively set for the first week in March. If, however, an emergency arises before that date, we will call a special meeting.

CHILE AD HOC COMMITTEE MEMBERS

Mr. Kimball C. Firestone Firestone Tire and Rubber Company 1001 Connecticut Avenue, N. W. Washington, D. C. ME8-0350

Mr. Francis D. Flanagan W. R. Grace and Company 1511 K Street, N. W. Washington, D. C. NA8-6424

Mr. William C. Foster Ralston Purina Company 1730 Rhode Island Avenue, N. W. Washington, D. C. 223-5303

Mr. Jack Gilbert Charles Pfizer and Company 1700 Pennsylvania Avenue, N.W. Washington, D.C. 20006 659-3515

Mr. Robert L. James Bank of America 730 - 15th Street, N. W. Washington, D. C. NA8-8181

Mr. C. T. Mark.
Dow Chemical Company
108 Executive Building
Washington, D. C.
296-1915

Mr. Ralph Mecham
The Anaconda Company
1511 K Street, N. W.
Washington, D. C.
393-5867

Mr. Lyle Mercer Kennecott Copper Corporation 1775 K Street, N. W. Washington, D. C. 20036 293-7090

Mr. Jack D. Neal ITT Corporation 1707 L Street, N. W. Washington, D. C. 20036 296-6000

Mr. William R. Merriam ITT Corporation 1707 L Street, N. W. Washington, D. C. 20036 296-6000

Mr. Bill Wickert Bethlehem Steel Corporation 1000 - 16th Street, N. W. Washington, D. C. 20036 393-4720 Mr. E. J. Gerrity, Jr.

February 17, 1971

W. R. Merriam

Chile - Proposed Visit by ITT Officials with President Allende

Reference Mr. Geneen's February 12 memo to Messrs. Dunleavy and Bennett re negotiations by any ITT officials with Chilean govornment,

Today, Hal Hendrix informed Jack Neal that Dunleavy and Guilfoyle plan to see President Allende on March 8. During visit Neal and I had at State Department this afternoon, we mentioned the proposed visit.

Immediately Deputy Assistant Secretary of State Crimmins expressed concern as to the purpose of the visit and asked whether Ambassador, Korry had been consulted as to the timing, etc.

It is evident State is taking as strong a line as possible with Allende.

The American Embassy at all levels, Crimmins said, is getting the message over about U.S. concern and it is having some effect.

Crimmins would like to know the purpose of the ITT meeting and believes the Embassy in Santiago should be checked for comment.

/emb

Mr. Merriam/Mr. Neal



MR. GERRITY CALLED RE CHILE:

The President-elect is going to confiscate American companies, specifically the copper companies.

Mr. Gerrity suggests that you do the following:

- (1) Contact the Washington representatives of these companies -- Braden, Cerro Daw Chamber
- (2) Contact Washington reps to see what their attitude is and what they intend to do.
- (3) Find out what they are going to do at the State
 Department and also find out what the State Department is going
 to do.

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Personal and Confidential

Mr. If.S. Geneen

E.J. Gerrity

PECCE

February 11, 1971

Chile

FFB 1 2 1971

F. J. Duranay

Naturally we have been doing a lot of thinking about what the future holds for us in Chile. It is quite plain that President Allende is moving forward with his announced program much more swiftly and effectively than anyone, perhaps ITT excepted, ever thought he would.

It has accurred to me as it has to Jack Guilfovic and Tim Dunleavy that perhaps we are near the time when we should approach Allende directly on the same basis we handled the situation in Peru in the wake of the IPC problem.

Briefly, our thought is that we might suggest strongly to Allende that he make an agreement with us on the best possible terms we can arrange so that when he has to come to grips with the problems which will flow from his treatment of other American investment in Chile, he will be able to voint to a satisfactory arrangement with us. In short, when the critics descend on him, assuming that he has made a reasonable arrangement with us, he can point to us as an example of how a fair deal can be completed if both sides approach the matter sensibly.

I think we have a couple of things going for us. One, we own two major hotels in Santiago and we can point out that if he treats us fairly we would do everything possible to promote tourism both in Chilo's interest and in our own, thereby generating much needed foreign invostment for his country. I believe that if we take a very pragmatic approach insofar as the telephone company is concerned, we might even be able to secure a contract to maintain and operate as well as supply the company.

Personal and Confidential

Personal and Control

Allende could elect a facade of "Chileanization" in taking over Chiletco but he would have to recognize that he does not have the know-how to run the company efficiently and that it would be in his interest to maintain a relationship with us.

I am suggesting for your consideration that we try to evolve a plan which would provide a mixture of good international relations for Allende and which would also provide an agreement that would be good business both for Chile and for the United States with us as the vehicle.

I discussed this idea briefly with Ted Westfall today and he thinks it makes sense.

cej_Messre, H.J. Aibel

R.E. Bennett

F.J. Dunleavy

J. Guilfoyle

T. B. Westfall

W.R. Merriam/J.D. Neal

Personal and Confidential

Chile - Activity by Washington Office

Long before the Chilean elections and the assumption of the presidency by Dr. Allende, the Washington office staff, in anticipation of the present situation, stepped up its activity regarding Chile. Some of our points of concurrent contact are listed herewith:

White House

At an early date we established liaison with Dr. Kissinger's office.

Mr. Geneen's deep concern about Chile was expressed to Kissinger. We
prepared a "white paper" which was delivered to him and kept his office advised
of the information ITT was receiving from Chile.

State Department

We maintained daily and almost hourly communication with State as regards Chile.

This was mainly at the Director and working level, but we were also in constant touch with the policy level of Assistant Secretary of State Meyer and his Deputy, John Crimmins.

Congress

Our congressional staff set up a task force to keep their friends on the

Hill advised of day-to-day happenings in Chile. They met with staffs of the committees

dealing in foreign affairs. They prepared draft letters to be sent by appropriate

Congressmen and Senators to Administration officials.

They briefed countless members of Congress on ITT's exposure.

Private Enterprise

Bill Merriam formed an ad hoc committee of all Washington representatives whose companies have investments in Chile.

There was a free exchange of information and a concerted program for getting over to all government agencies the danger developing in Chile.

This was a very effective group.

Press

Jack Horner and Bernie Goodrich established liaison with the various media people interested in Latin America and supplied them with information on Chile which resulted in new items and articles in ma gasines. Contacts also were established with the United States Information Agency and various staff members at the Inter-American Development Bank.

CIA

Early in the Chile crisis, Bill Merriam established liaison with the Gentral Intelligence for an exchange of Chile information which has been very desful to both parties.

Dr. Danielian

Bill Merriam put Dr. Dan and his IEPA on immediate notice to concentrate on the dangers in Chile and to formulate policies which could stimulate Congress and the Administration to give protection to private industry.

OPIC

Because of Chiltelco negotiations, the main liaison of ITT with OPIC has been through ITT Headquarters. However, the Washington office maintained its close association with this group and continues to do so.

American Embassy - Santiago

During Ambassador Korry's visits to Washington we always conferred with him.

We have close relationships with various officers of the Santiago

Embassy and have conferred with them both in Washington and in Santiago.

Pebruary 12, 1971

MEMORANDUM TO Mr. Dunleavy and Mr. Bennett

Tim:

You have a copy of Ed Gerrity's memo to me on the possibility of working something out with the government of Chile.

Please be aware of the fact that the transaction which-Anaconda entered into with the Chilean government was sufficient to void their AID guarantees. ...

I think it is highly important, therefore, that neither Jack Guilfoyle or Benny Holmes or anyone get into any area of implied or other kinds of negotiation which as a matter of honor or moral commitment we would have to carry out unless we are sure that each such step has been approved by the Legal Department, who will have cleared any possible conflict or otherwise with the AID Department in advance.

This is highly important a. to avoid the use of technicalities to withdraw insurance coverage.

H. S. Geneen

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In.

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. GEBBITS

2/18/71

To: E.J. Gerrity

From: W.R. Merriam

Here is Neal's analysis of our visit to State yesterday. Hope this is concise enough for you.

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INTER-DFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036

Tor

Mr. W. R. Merriam

Date: February 17, 1971

FROM

J. D. Neal

Chile, Peru, Ecuador and Argentina -- Discussion with State Department

The following covers our hour conversation today with Deputy Assistant Secretary of State John H. Crimmins and John Fisher, Director of Andean and Pacific Affairs.

ľ

Chile

Mr. Crimmins was informed ITT's main Latin American concern at present is Chile. While no action has been taken against ITT holdings, valued at \$150 million, we are carefully watching President Allende's threat against the copper companies and particularly the legislation concerning payment for expropriation.

We told Mr. Crimmins ITT wants the U.S. to take the strongest measure to see that just payment is made to the coppor companies because this will set the example for other possible expropriations. We told him ITT would not be interested in long term, low interest bearing bonds because we have already made a survey of the market for Chilean bonds and find none exists.

We stated we are aware the U. S. must be careful not to take negative actions which might strengthen Allendo, but at the same time, we trust the U. S. can speak out forcefully at the proper time, thus giving hope to Allende's opponents. We referred to Senator Javits' speech and that of Harold B. Scott, Director of the Bureau of International Commerce; both of which were forceful and effective.

State Acting Cautiously and Effectively

Mr. Crimmins said the American Embassy in Santiago was working on the Chilean government at all levels to get across the

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message of U. S. concern. Too, the State Department is working on the new Chilean Ambassador to Washington, Orlando Letelier. The Department is convinced the message has soaked in.

Mr. Crimmins believes the U. S. policy is having its effect, but he does not wish to be too optimistic. He realizes that with the unpredictable situation existing in Chile, anything can happen.

There was every indication the State Department will use every advantage to keep Allende in line.

In reply to our inquiry, Mr. Crimmins denied that U. S. Ambassador to Chile, Edward M. Korry, is being withdrawn.

Contrary to what we heard previously, both Crimmins and Fisher said Undersecretary of State John Irwin is concerning himself with Chilean affairs. In fact, Mr. Crimmins had spent an hour with Irwin immediately prior to our appointment.

We mentioned the proposed visit of Messrs. Dunleavy and Guilfoyle with President Allende on March 8. Immediately, Grimmins expressed concern as to the purpose of the visit and asked whether Ambassador Korry had been consulted as to timing, etc. He believes the Embassy in Santiago should be checked for comment.

Peru

We discussed Peru only briefly but it was evident both Crimmins and Fisher were skeptical about the status of the eituation in Lima.

Argentina

The State Department is watching Argentina quite closely because it is concerned about the tense political situation which they termed a power play between President Livingston and General Lanusse.

We discussed the rumored discontent of the local and foreign business sector with U. S. Ambassador Lodge. Mr. Crimmins asked for ITT's report on this subject; it has been delivered to him.

Ecuador

We took this opportunity to brief Crimmins on the status of the AAC&R negotiations and to let him know we anticipate difficulty-particularly since Ecuador seems to have preconceived ideas about the validity of some parts of our claim.

Our presentation followed closely the "Legal Basis of Claim" as setforth in General McNitt's Resume of February 5, 1971.

Mr. Grimmins asked that we continue to keep the State Department and Embassy Quito advised.

cc; E. J. Gerrity H. Hendrix

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036

Mr. E. R. Wallace

DATE:

February 19, 1971

Feau.

SUBJECT: Chile - Meeting with President Allende

During the February 17 meeting Mr. Merriam and I had with Messrs. Crimmins and Fisher at the State Department, Assistant Secretary of State Crimmins requested that ITT keep him informed as to the topics to be discussed with President Allende on March 8.

Today, I called on Mr. Fisher and told him ITT did not expect to have its discussion agenda until the first week in March. I stated he could be assured one of the major items would be the necessity for a Chiltelco rate increase.

Mr. Fisher again expressed grave concern regarding the proposed meeting. I asked whether any other American companies had been in to see President Allende. He said, "No."

Mr. Fisher said he would cable Ambassador Korry immediately for his viewpoint and would let us know early next week.

cc:

E. J. Gerrity

W. R. Merriam

H. Hendrix

C. N. Goldman

J. F. Ryan

J. W. Gullfoyle

February 19, 1971

E'. Dungett

Chite

I have been advised by Eduardo Schijman that the Committee for the Alliance for Progress (CIA) will be holding its meetings next week in Washington and that the following Chilean government officials will be attending the meetings:

> Minister of Economy, Pedro Vuscovic President of the Central Bank, Alfonso Inostroza Executive Vice President of CCRFO, Bart Breckman Head of the Planning Office, Conzalo Martner Director of Budgets, whose name is not known.

The meetings start Monday, February 22.

According to Schijman, the Chilean group will be in New York on Thursday, February 25, to attend a luncheon being given for them by the leading bankers in New York. The luncheon will be held at the Bankers Club at 120 Preadway.

I have advised Jack Neal accordingly and have asked him to follow up on this matter.

. ED:pm

cc: E.J. Gerrity
E.R. Wallace
K.M. Perkins
H. Hendrix

J. Neal - Washington, D.C.

PUBLIC RELATIONS DEPARTMENT

LIGHT

ANIMOMY

ANI

INTER-OFFICE MEMORANDUM

1707 L STREET, N.W.
WASHINGTON, D. C. 20036

To:

Mr. E. R. Wallace

FROM:

J. D. Neal

DATE: February 22, 1971

SUBJECT:

Cuba - Chile Communication Link

Confirming our conversation last week, Chile and Cuba have signed two telecommunication agreements, the first of which provides international public telecommunications between the two countries. The second agreement calls for interconnecting their respective installations whereby messages (telex, etc.) and voice communications can be transmitted to any city within either country

These agreements were signed for Chile by Daniel Vergara, Subsecretary of Interior; Hernan Zuleta, Director of Post and Telegraph; and Salamon Suwalsky of Entel. The Cuban Ambassador in Santiago, Mario Garcia Inchaustegui; and Orlando Arias Nunez, Subdirector of International Radio Communications Company of Cuba, signed for Cuba.

No doubt we will be hearing more from Bennie Holmes because this will involve our Chiltelco.

cc: E. Dunnett

H. Hendrix

W. R. Merriam, ITT/W

. 1440

Distora Confliction

TO : HEPORIX - ITTHO HY

FROM : BERRELLEZ - ITTLA BA C/O CHILTELCO DATE : FEBRUARY 23, 1971

RECEIVED INCRYPTEL

RECEIVED 7;00PMEST/RD 1TT COMMUNICATIONS 1440

CC : GERRITY, WALLACE, PERKINS, GUILFOYLE, DUNNET - ITTHQ NY

URGENT

SYSTEM CONFIDENTIAL

GOVERNMENT ACQUIRED CONTROLLING INTEREST - FIFTYONE PERCENT - IN RCA VICTOR THROUGH PAYMENT OF ELEVEN MILLION ESCUDOS, ROUGHLY 770 REPEAT 770 THOUSAND DOLLARS AT OFFICIAL RATE.

ANNOUNCEMENT PUBLISHED IN LOCAL PAPERS TUESDAY EVENING WAS MADE BY OSCAR GARRETON, SUBSECRETARY OF ECONOMY.

CORFO, THE STATE DEVELOPMENT AGENCY, FORMERLY HAD 33 PERCENT SHARE OF RCA WHOSE CAPITAL AND RESERVES WERE FIXED IN THE ANNOUNCEMENT AT 30 (THIRTY) HILLION ESCUDOS, OR SLIGHTLY MORE THAN USA DOLLARS TWO MILLIONS.

THE ANYOUNGEMENT SAIT CORFO WOULD TAKE OVER ADMINISTRATION OF THE COMPANY, WHICH MOULD HENCEFORTH HE KNOWN AS INDUSTRIA HADAU T TELEVISION SOCIEDAD ANONIMA (RADIO AND TELEVISION INDUSTRY), WHILE RCA WOULD PROVIDE TECHNICAL ASSISTANCE.

THE ARTICLE DID NOT SAY HOW RCA WAS PAID. SUGGEST CHECK WASHINGTON.

ORIGINAL TO MR HENDRIX
COPIES TO MR WALLACE MR GERRITY
MR PERKINS MRGUILFOYLE
MR DUNNETT

System Could outline

(2) LATHI AMERICA MFG.

•	AIREL DENNETT COOKSON	DUNLE. MURTA	UGH	GERRITY HAMILTON EACHAR	RUNYON KNORTZ KCCCo., Job.	MG CÁBE MG REILL (2003)	SCHAFFER WEADOCK
	ANSPACH BARKES		BRITTENHAM CNOSBY KLEINHAMMER		FAIRFIELD FLAKS PIERSON	GUILFOYLE HODGSON KINNAMAN KOLLMEYER	MATHAI MOSSBERG THEOFEL SPARKS

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D.C. 20036

To:

Mr. Ralph Mecham

DAYEI February 23, 1971

FROM

W. R. Merriam UNC

....

Support Chile Ad Hoc Committee Meeting - March 5, 1971

There have been developments on the Chilean front from our point of view and I hope from yours. I think we should get-together again and have scheduled a meeting for March 5 at 10 a.m. I hope this time is convenient for you.

Y

We have made visits to the State Department and to the Hill and expect more visits before our meeting.

I look forward to seeing you March 5.

/cmb

P.S. If you know of any other people who have an investment in Chile, bring them along.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

SYSTEM CONFIDENTIAL

10 H. Hendrix - ITTHOs - N. Y.

DATE February 25, 1971

FROM

R. Berrellez - B. A. (by telephone to N. Y.)

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT Chilean-March 8 Conference

The following is offered for possible use as guidance in the March 8 meeting with President Allende.

- (1) Economy Minister Pedro Vuscovic met recently with a small group of Santiago businessmen for an informal and private and revealing discussion of national economic and financial problems and concerns.
- (2) In a candid and forthright manner, Vuscovic spelled out official policy and objectives vis-a-vis private enterprise. This was a rare if not the first confrontation between a ranking Minister and topdrawer businessmen on the most burning issues at hand.
 - (3) In essence, this is what Vuscovic laid out:
 - (a) The government recognizes the importance of price increases to the survival of private enterprise. Government policy thus far has been to oppose price increases. Still, profit levels could be maintained, if, in lieu of price or rate increases, government taxes, penalties, assessments, etc., and other operational overhead were reduced. In other words: alternate cat-skinning schemes without resorting to politically unpopular price hikes.
 - (b) The Allende government is not necessarily interested, at this point, in controlling private enterprise through nationalization, joint ventures, intervention or expropriation. But it would prefer control over corporate decisions on new investments, expansion, and general policy. (FYI, in 1959 Che Guevara made a nearly identical pitch. He stressed that uncontrolled private enterprise resulted in a proliferation of investment in the same fields while ignoring others. State policy control was necessary, he said, to insure diversification and eliminate the ills of a mono-product (sugar) economy).

- (c) The government will be flexible in the application of nationalization intervention or joint venture policy to private enterprise. Each case will be dealt with individually.
- (4) Vuscovic's session here and his Monday (February 22) remarks in Washington before the Alliance for Progress Committee (CIAP) suggest a softening of official policy toward private enterprise, but only temporarily. Vuscovic also told the businessmen the government will proceed with its socialization plans and that within twenty years private enterprise would disappear from Chile.
- (5) The consensus here is that a mellowing of the official line is due primarily to two factors: (1) the administration is running short of cash; some evidence of this can be found in the sudden muting of propaganda to buy up private bank shares in order to acquire control of private banking institutions; (2) Because of the tight financial situation, Allende doesn't want to rock the boat in a manner that would imperil foreign credit sources.
- (6) A related factor are the April municipal elections. The government wants no adverse foreign propaganda that will frighten the independent voter at a time when Allende undoubtedly has been building up a large personal following he lacked before. A better than 37% performance (his margin in the presidential elections last fall) in the April vote can be translated by the government into a mandate. Most reliable sources say Allende is gaining ground and would pick up 47% today. There are no electoral polls active yet.
- (7) A mellowing of official policy toward private business if such turns out to be really the case and not just a symptom of some other political aberration must be handled discreetly. This is because private enterprise is anathema to the radical lestist fringe and there are ample signs now of a tussle between moderate Marxists and the Mao-Castro types in the official woodwork.
- (8) This is why, it was explained to us, in taking over the printing enterprise, Zig Zag, the government made the former owners sign a statement, later released to the public, saying they had relinquished all without pressure and under generous terms.

(9) Ambassador Korry is optimistic about the meeting. If we lay it out straight on the line for Allende, he says, we are likely to get a sympathetic response. The reason here again is the government's concern about its finances, rising unemployment, and possible loss of foreign credit.

(10) Summing up, the word to us is that Allende will be waiting for us to make an offer of some kind that will not depend exclusively on a rate increase; it is too early and the indicators too tender to even assume that there has been, in fact, a softening of official policy; the fact remains that a social state is the main objective of the people in power and that they are determined to achieve their purpose one way or the other.

RB:pm

cc: E.J. Gerrity, E.R. Wallace, K.M. Perkins, E. Dunnett F.J. Dunieavy, J.W. Guilfoyle, J.M. Stimson

R. Berrellez - Buenos Aires

March &, 1971.

TO : Hal Hendrix, ITTHONY.

FROM : Berrelles, Cappello, Chilteleo.

SUBJECT: Chilean Situations:

- I. The internal political situation has not changed substantially since our last status report last month. There's sharper anti-Washington edge to the political atmosphere, but this is almost certainly a product of circumstance rather than design.
- 2. There's nothing to indicate, therefore, that the environment for negotiations has altered from what we reported earlier.
- 3. Two unrelated developments the past week contributed to fueling anti-Washington sentiment in the far leftist press to the highest peak since President Allenda took office in November. This campaign is considerably lower keyed than the gringophotic hysteria of Havana 1961 and Santo Domingo 1965. The official state of Lawron, took a more subdued approach to these evenus than did the Communist newspapers, El Siglo and Puro Chile. The developments: cancellation of the U.S. Aircraft Carrier Enterprises visit to a Chilean port and the disclosure of an alleged plot involving the CIA to depress copper prices on the world market.
- 4. A more ominous development at longer range has been the cannonading in most of the pro-government press against the Supreme Court. The nations highest court and the armed forces remain the two lone democratic institutions guaranteeing constitutional order in the country. The incompatability of the Socialist state Allende hopes to impose in Chile with and the Supreme Court seems more pronounced. They are on a collision course.

 The developments:
- 5. Last March 2 the government claimed it had uncovered a CIA-sponsored international plot to depress prices and harm Chilois economy. Five persons have been formally charged in the plot, one of them a U.S. citizen identified as Howard Bowards. The far leftist press described him as a CIA agent who was wounded in the 1961 Cuban Bay of Pigs invasion.

- 6. The New York Times Juna do Orle, who talked to Edwards at the Sheraton San Orletchal before his arrest, decembed him as a "payebo" whose calm to being a Orlet agent was a "creat care" with OIA inscribed on it. From other sources we've learned Edwards has claimed to being a former OIA, agent. It is known he is wently in Florida for completely in some shady deals.
- 7. The arrest of Edwards and four others was ordered on Printy. The others are: Miguel Sanz Prankel, Urugunyan; Alfred Kocning, Swiss; Eduardo Diers, Argentine and the Childre Also Orezzoll, a man identified as Jesus Kaso, Mexicall, reportedly field before being arrested.
- 8. The official charge remains obscure. It has been determined from competent sources, however, that the bise of the government case involved violation of the State Internal Security Laws, specifically article 4-G. This article calls for pullshment of "all those persons who send tendentious news or information intended to discretit our republic and democratic regime or to create constitutional disorder, attempt against the international security of the country and the economic or monetary regime, or the normality of prices, the stability of public values and effects, and the supply of the population".
- 9. The specific violation under this article, as determined by the State Copper Corporation, were the alleged activities of a private firm, reportedly incorporated in Switzerland, as Internorale Finance (it has also been listed variously as "Internorale" and "Internoral"). The Company is alleged to have deposited a U. S. dollar 493.000 guarantee in a Swiss bank against the purchase of 960.000 tons of electrolytic Copper from Enami, the national Mining Company. Investigation reportedly revealed the company had only some dollars is coo on deposit. As pictured here, publication of the spurious copper purchase was intended to create an impression in the copper market that Chile had a substantial surplus and that this would tend to depress prices.
- 10. To many incommitted Chileans, the thought that an operation such as attributed to Edwards and the other four could ictually depress world copper prices seems a notch farfetched. A belief is that some fast-buck operators in the government not average to capitalistic goodles got mixed up in a deal the far leftist press is trying to cover up with an anti-gringo smokescreen.

- II. First reports on the alleged operation last month (Feb. 18) were considered substantial enough for President Allende to order an investigation. This was the first public word on the plot. It became hot news in the following days and peaked at a time when the press also was picking up a lot of anti-Washington static on the cancellation of the visit of the Enterprise.
- 12.ITT got nicked by some of the anti- U.S. flak. The leftist press reported the plot had unmasked the Sheraton San Cristotal as a center of subversion since this was where the alleged copper operators were staying. Another observed this was only natural since the hotel manager (Fernando Hoffman) once bossed the Habana Hilton when Dictator Batista ruled Cuba.
- 13. The San Cristobal came in for more publicity on Monday, March 8. The state organ, La Nación, published a report saying that hotel union leaders were demanding its nationalization because management insisted on dismissing personnel (50 alledged cases) instead of trimming the huge salaries of executives who were always traveling abroad.
- 14. Cancellation of the Enterprise's visit drew lesser fire. Some papers reprinted the editorial sociding of the Mixon Administration by the New York Times. Although some in the American colony were chagrined over what they termed "an unnecessary self-inflicted wound" diplomatically, others thought Navy Boss Zumwalt, in suggesting the Big E come here, failed to weigh the overall hemispheric implications of such a friendly gesture toward a regime whose known hostility toward Washington has been only papered over for political reasons.
- 15. More foreboding in the past week were the official and communist press attacks on Supreme Court Chief Justice Ramiro Mendez Branas. Traditionally, the opening of the so-called "Judicial Year" in Chile calls for an address by the Chief Justice. Mendez Branas dedicated a portion of his speech to a criticism of the ill fated Allende project to create "people's tribunals" (a la Cuba) in this country.
- 16. The draft law creating the tribunals was officially withdrawn by the government from the parliamentary schedule on Wednesday. It had come under strong criticism from the majority opposition in congress and was doomed to failure.
- 17. The far leftist press howled that chief justice Mendaz Branas had involved himself in politics and should step down. The political committee of the sociated party (machine, feater a public exactment domaining the exact justice) resignation on growing he had vicinate Supreme Courte organic law harring political netitive by justice.

- 18. The far leftist press also were after justice Mender Britis as a reactionary and representative of a decadent society. In his early poses as a democratic revolutionary, Fidel Castro used this type of muckraking, but with more personal venom, to force those in his way to resign. Those who cidn't get the message and linguish on eventually wound up in jail, abroad or underground. In repose.
- 19. For a balanced perspective, the past week's developments need be viewed in the light of current political developments. Blections are scheduled April 4 and although they involve municipal level officers, they are of vital concern to the government which hopes to obtain a majority it can then translate into the mandate it did not get in the presidential elections.
- 20. Fidel Castro and other Latin American leaders have shrewdly exploited anti-U.S. sentiment to rally support for their causes, however unpalatable they might be. Thus, it is quite probable Washington will continue to be used as the whipping boy for whatever gain the practice brings electorally. The belief here remains, however, that for very practical economic purposes, the government will not let this get far beyond its borders lest it blemish its image of moderation abroad and frighten credit sources.
- 21. As to the elections, the first unofficial polls predict Allende's coalition will pick up between 40 and 47 per cent of the April vote, as against 37 per cent last November.
- 22. The opposition (Christian Democrats mostly) is hitting hard at the most visible official Achilles heel: unemployment. Such is the jobless problem, President Aliende returned to work on Monday amid much press fanfare that he personally would take command of forces seeking a solution to the unemployment problem.

cc: Mr. Gerrity, ITTHQNY
Mr. Wallace,
Mr. Dunleavy,
Mr. Gullfoyle,
Mr. Perkins,
Mr. Dunnett,
Mr. Goldman,
Mr. Sulmson,
"

Płom

L. RALPH MECHAM

MAI

March 23, 1940

TO

C. Jay Parkinson X W. E. Quigley John G. Hall H. L. Edwards

G. Carey

C. J. Bilgore

Attached are minutes of a meeting between President Allenda and officials of ITT. I have maintained here a very close liaison with ITT and other companies who have extensive holdings in Chile.

Atch. Cy of Minutes of Meeting, March 10, 1971, between ITT officials and President Allende, with staff members, in Santiago. T 100

New York - March 12, 1971

To

K.M. Perkins

From: Hal Hendrix

Subject: Meeting with Allende 3-10-71-Santiago

cc: E.J. Gerrity, E.R. Wallace, E. Dunnett F.J. Dunicavy, J.W. Guilfoyle, J.Stimson, C. Goldman R. Dillenback, M. Bogie, L. Hamilton, W. Holmes

R. Berrelles - ITTLA BA W. Merriam, J. Neal - ITT - Washington

Following is a resume of a meeting March 10, 1971, in Santiago with President Salvador Allende. Attending were F.J. Dunleavy, J.W. Guilfoyle and B. Holmes. With Allende were Interior Minister Jose Toha, Jaime Schatz, director-general of Servicios Electricos, and the President's translator.

The meeting started shortly after 11:30 a.m. and lasted about one hour and 15 minutes. It began in Allende's office and shifted to his study. The atmosphere and tone of the meeting were described as very cordial, relaxed, pleasant and amiable. Contrary to rumors, Allende appeared to be in excellent health. He was alert, attentive, displayed a ready sense of humor and asked numerous questions. He was at the same time clearly in charge of the meeting.

Throughout the discussion, which did not stray far beyond CHILTELCO matters, it was obvious Allende had been well briefed. It was equally clear he did not fully understand the financial aspects of CHILTELCO. Neither did Toha nor Schatz.

Highlights of the discussion were:

 Allende stated more than once he was not considering taking over CHILTELCO at this time. He said he did not want to expropriate or nationalize fully, emphasizing he would prefer a partnership arrangement of some sort, He did not spell out any details.

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- 2. Allende said he would name a commission to review and study the problems and plans of CHILTELCO. He first said Minister Toha would head the commission, but later indicated Schatz would have the role. {Later in the day, Toha said at a press conference that Schatz would preside over the commission and this was reported in the March 11 edition of El Mercurio}.
- 3. Allende said the commission would make ITT a proposal or an offer in 30 to 40 days, and he would expect us to return with a counteroffer if we found the commission recommendation unacceptable.
- 4. With respect to CHILTELCO's rate petition, following Dunleavy's review of it, Allende said only that the petition was being studied. He gave no hint about its disposition.
- 5. Allende seemed genuinely impressed by the fact that the Chilean government, through GORFO, is already a partner with ITT in ownership of CHILTELGO. He also appeared to appreciate Dunleavy's emphasis on joint efforts to resolve "our mutual problems" in the operation of CHILTELGO. Allende said he looked forward to an amicable solution.
 - Dunleavy pointed out candidly to Allende that he has a choice of three courses of action to follow;
 - (a) Continue to increase CORFO equity under the existing buy-out program established in the convento.
 - .. (b) .. Buy out immediately for cash.
 - (c) Expropriate CHILTELCO, causing us to file an immediate claim with OPIC (AID).
 - -7. Dunleavy stressed that ITT has worked hard to avoid going to OPIC, even though the present financial condition of CHILTELCO warrants it. Allende seemed properly impressed that we were not trying to use OPIC as a whip to force him to act, saying he desired to resolve the problems with us alone.

Generally, the flow of Dunleavy's remarks followed the outline prepared in New York;

Dunleavy set the themé immediately by saying he, Guilfoyle and Holmes had come to talk about the problems of "our mutually-owned company,"

Allende interruped to comment that "you have the biggest part of it," Dunleavy replied that "you can take it all any time, Mr. President," pointing out that we recognized back in 1967 that Chile desired ownership in CHILTELCO and proceeded to move ahead with the convenio buy-out plan.

Dunleavy noted that under this plan CORFO now owned 24% of CHILTELCO. Allende asked Toha and Schatz if this was correct and appeared pleased with this fact,

Dunleavy commented that the government could accelerate the program or buy out all the ITT equity for cash, adding that Allende must make the decision on which is in the best interest of Chile.

At this point, Dunleavy told Allende that whether he was aware of the fact or not, Chile now has one of the best telephone companies in the world in CHILTELCO and one of the best telephone men in the world in Holmes. He also cited the expansion problems experienced by the Bell System in the U.S. and other telephone companies in all parts of the world.

Allende responded that he was aware of the great improvements made by CHILTELCO and complimented CHILTELCO for its expansion program. He was lavish in his praise of Holmes as a "fine administrator" and as a man and good friend. (Dunleavy later commented that he felt Allende probably was fonder of Holmes than Holmes himself believed.).

Allende ended his expression of admiration for Holmes by remarking that he wanted us to continue to be a part of CHILTELCO. He did not specify what he meant by this. Then, he asked what our problems are.

Dunleavy advised Allende that "we have an immediate problem in CHILTELCO." He explained the financial picture in detail and concluded by noting that in 60 to 90 days CHILTELCO will have an 8 to 10 million dollar cash shortfail, and that by the end of this year it will be about 14 million dollars.

Allende asked, "Is this a conspiracy among you foreign companies?"

Dunleavy replied negatively, pointing out that we have been trying hard to get debt rollovers. He also said Allende must help to obtain financing from Chilean banks.

Allende said he felt we should have adequate cash since ITT is a world-wide operation. He said he didn't believe cash should be a problem.

Schatz ventured that perhaps we do not put enough working capital into CHILTELCO.

Dunleavy then cited the financial facts about ITT and CHILTELCO, with emphasis on our re-investment of \$6 for each dollar taken out of Chile.

Allende expressed his concern at this point about international companies "deserting Chile." He cited Indiana Brass and Bethlehem Steel. Dunleavy commented that we were trying to work out a solution for CHILTELCO's problems.

Allende said he also was concerned about the attitude of U.S. banks toward Chile. He explained that Chile had recently paid some debts, about \$75 million. He said U.S. banks found the government to use reserve deposits to pay off these loans and later refused to approve new loans because the deposit level was down. Dunleavy and Guilfoyle reasoned that Allende figures he was sandbagged and resents the fact the banks did not advise earlier about deposit level requirements.

Returning to CHILTELCO problems, Dunloavy suggested that some form of tax relief might be an alternative. Allende did not indicate approval or rejection.

Allende continued to question why financing was such a critical problem for CHILTELCO. It was obvious it was not clear to him. Dunleavy explained again and Allende indicated then he understood the situation.

Dunleary also pointed out that the CORFO shortfall now is about \$20 million, while we are about \$14 million ahead in payments. With this, Allende dropped the subject.

Dunleavy said it didn't make any difference who ran CHILTELCO, it still will need financing and adequate rates. Ine one of a series of anecdotes, Dunleavy commented that a telephone company was like a woman - always coming back after money. Allende laughed and said this was not so in Chile.

Allende said he would like to work out an amicable solution, but it would have to be all open and above board. Dunleavy responded that this is the only way we understand to do business.

Allende said he believed he understood the problems and the critical phase in the next 90 days. He said he would try to have something worked out in 30 to 40 days. He then stated he was appointing a commission to work on the problem, and said Toha would be our contact. Later he included Schats.

Allende repeated that he hoped we can work out a mutually satisfactory solution. He added that Chile would need some technical help. Dunleavy said we would provide it.

Dunleavy then pointed out to Allende he has three alternatives -- continue ' buy-out plan under convenio, buy all ITT equity immediately for cash, or "grab the company."

Dunleavy added that the day Allende "grabs the company, we go right to AID." He said ITT has worked hard to avoid this action.

Allende repeated his desire to work with us to reach a fair solution. He said the commission would determine a fair price for the company. At first, he said that price would be final and later did a 180-degree turn and said he would expect us to present a counteroffer.

Dunleavy told Allende if the price was not right, he personally would come back to fight hard for our price. Otherwise, he said, Holmes would be our representative in dealing with the commission.

Near the end of the meeting, Dunleavy said he would like to discuss the hotel problem; briefly. He said he had heard the government is interested in buying the Carrera hotel to use as a ministry office building.

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Dunleavy said he could suggest a way to acquire the Carrera with very little cash. He proposed a swap of the CORFO loan on the San Cristobal for the Carrera, plus approximately \$1 million. The proposal apparently intrigued Allende, who commented that Dunleavy should be his Finance Minister.

Allende also had a proposal of his own,, displaying a facet of capitalism in his otherwise Marxist thinking. He said he had invented something which would indicate an incoming phone call while a person was speaking on his telephone. He suggested ITT might wish to develop it--but, he said, he wanted royalities. Dunl eavy said we would be pleased to take a look at it.

Before the meeting adjourned, both Allende and Toha spoke emotionally about their telephones being bugged. They were assured the company was not in this business and Dunleavy offered as a gift some scanning equipment to check for tapping. Allende accepted the offer. Holmes also will check their phones.

In conclusion, Allende said he thought the people involved could get together and work out an agreement. Dunleavy told him he was taking him at his word. Dunleavy said if Allende bought us out for cash, his credit rating would go up around the world. If he did it properly, Dunleavy said, we would go to the banks and tell them how fairly we had been treated.

Dunleavy said also that if "you (Allende) grab the company, then that is your problem,"

Photographers and cameramen were allowed in for photos before the meeting broke. The conversation was taped.

In mid-afternoon, Toha held a press conference and said the topics of the meeting were CHILTELCO's expansion program and service improvements. He also said a commission was being formed and Schatz would preside over it.

The following morning, March 11, only El Mercario carried a story on the meeting, limited only to Toha's statement:

A SECTION

We prepared the following comment for J. Cappello to use in answer to media queries:

Proposed Draft of Press Statement to be Used ONLY If Needed

President Salvador Allende and executives of the International Telephone and Telegraph Corporation met Wednesday (March 10) to discuss expansion and service improvement projects and future plans of the Chile Telephone Company.

The Chile Telephone Company is partly owned by the Chile Development Corporation (CORFO), private Chilean stockholders and ITT.

After the meeting, a spokesman for ITT said the telephone company is continuing with the expansion and service improvement plans initiated in January, 1968.

Also attending the meeting were Interior Minister Jose Toha; Jaime Schatz, superintendent of Electrical Services, and Benjamin W. Holmes, General Manager of the Chile Telephone Company,

HH:pm

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

TO

K. M. Perkins

DATE March 12, 1971

FROM

Hal Hendrix

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT

Meeting, Ambassador Korry-Santiago

Following the meeting with President Allende in Santiago March 10, Messrs. F. Dunleavy and J. Guilfoyle visited with U.S. Ambassador Ed Korry at the Embassy residence to advise him of the discussion at the Presidential Palace.

The session lasted about one and a half hours, with Korry doing most of the talking--as usual.

Korry launched the discussion by relating the problems he has serving as Ambassador in Chile, noting frequently his disdain for the State Department's bureaucracy and his belief that President Nixon supports him.

Korry told us that his work load has increased substantially since the election of Allende, because, as he put it, he is wearing three hats--one as the Ambassadorial representative of President Nixon, another as the chief representative of OPIC in Chile, and a third as the protector of U.S. business interests in Chile,

Korry acknowledged that he was not seeing Allende. He indicated this was by instruction and there was little he could say to Allende directly even if the Chilean President wanted to see him.

Korry said, however, he was able to get his messages to Allende through meetings with Ministers and others in the government. (These alleged meetings with Cabinet Ministers do not match private reports from Chilean and other Embassy sources that Korry is virtually persona non grata with Chilean Cabinet members).

About the only real significant item of interest from Korry's discourse was his disclosure that Bethlehem Steel apparently has worked out a deal for a dollar-cash buy-out. He did not reveal any specifics, but said the package "is on the table now and should be resolved in a week to ten days." If this

- 2 -

proves true, such a settlement could afford us additional leverage in our forthcoming negotiations.

Korry implied he has played a major role behind the scenes in advancing the Bethlehem project to its present stage.

He said he has not discussed ITT's business in Chile with any Chilean officials because he had not been requested to do so by any ITT executive. At this point he finally inquired how the Dunleavy-Guilfoyle-Holmes interview went with Allende.

Dunleavy reviewed the meeting in general terms, without going into specific details. Korry commented he thought things had gone well and he believed the meeting had been a good idea.

Korry also said, in response to a question, that he did not know what was in store for him in the future. He said he had not heard officially about any departure from the Chilean scene, only what he had read in the Washington press. He admitted that he had pretty well burned his bridges at the State Department but he felt he still had President Nixon's confidence and respect.

Korry commented on the ENTERPRISE snafu and blamed it mainly on the fact that through a bureaucratic mix-up no-one had briefed Admiral Zumwalt on Chile before he arrived.

Korry did not disagree with the decision for the ENTERPRISE to cancel its visit, but claimed he was misquoted by Ben Welles in the New York Times as having lodged one of the strongest protests against the stopover at Valparaiso.

HH:pm

cc. E.J. Gerrity, E.R. Wallace, E. Dunnett F.J. Dunlcavy, J.W. Guilfoyle, J. Stimson, C. Goldman R. Dillenbeck, M. Bogie, L. Hamilton, W. Holmes, P. Connery

R. Berrellez - ITTLA BA
W. Merriam, J. Neal - ITT - Washington

THIS IS ITILA BA 3.00 PM/CC

TO HENDRIX - ITTHE NY AND SERRELLEZ
DATE MARCH 16, 1971

RECEIVED IN CRYPTEL RECEIVED 2;30PM EST/RD ITT COMMUNICATIONS 4290/C

CC GERRITY, WALLACE, DUNLEAVY, GUILFOYLE, GOLDMAN, PERKINS, DUNNETT - 1THO NY

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. LA-945/C

SUBJECT : CHILE

- 1. UNILE PUBLICLY EXPOUSING SELF-DETERMINATION AS A CORNERSTONE OF CHILEAN FOREIGN POLICY, PRESIDENT ALLENDE HAS PRIVATELY PLEDGED SUPPORT TO THE BOLLVIAN ARMY OF NATIONAL LIBERATION (ELN), A CASTROITE ARMED FAND DEDICATED TO FORCING THE BOLLVIAN LEFTIST MILITARY REGIME INTO MARXIST CONTROL.
- 2. ALLENDE MADE THE SECRET VOW TO THE ELN RECENTLY WITH ONE QUALIFICATION: HE WOULD HAVE TO CENSURE THEM PUBLICLY TO MAINTAIN UNTARNISHED THE IMAGE OF POLITICAL MODERATION HE AND HIS TROUPE ARE PEDDLING ABROAD.
- 3. THE INFORMATION COMES FROM THE MOST RESPECTED AND PROFESSIONAL OF SOURCES AND I'M SENDING IT ALONG TO HELP US KEEP THE CHILEAN PANORAMA IN THE PROPER PERSPECTIVE.

 SYNCER CONFIDENTIAL
- 4. YOU MAY RSCALL HAVING READ THE THOUSLE BOLIVIAN PRESIDENT TORRES HAS BEEN HAVING WITH THE ELH. THEY HELPED PUT DOWN AN ANTI-COMMUNIST DEMONSTRATION BY PEASANTS IN SANTA CRUZ LAST MONTH. YOU MAY ALSO RECALL A KEY POINT IN CHE GUEVARA'S HEMISPHERE STRATEGY THAT EXPLAINED WHY HE CHOSE ECLIVIA FOR HIS ABORTIVE GUERRILLA OPERATION AGAINST THE GEN. BARRIENTOS GOVERNMENT:

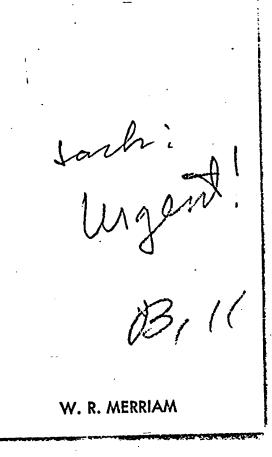
 1 MPOVERISHED, UNSTABLE BOLIVIA IS THE GEOGRAPHIC HEART OF THE CONTINENT, A STRATEGIC OPERATIONS BASE WITH ALL THE SUITABLE TERRAIN NECESSARY (MEUNTAINS, JUNGLES, ETC.) FROM WHICH TO OPEN SUBVERSION FRONTS AGAINST ERAZIL, PARAGUAY, ARGENTINA, ALL IMMEDIATE NEIGHBORS.

- 5. IN THIS CONNECTION, IT MAY NOT HAVE PERM PUBLY CIRCUMSTANCE. THAT MOVED (WIS DEBRAY, THE KNOWIST R() OFFICE RECULATIONARY WHO WHS INVALIDATION WITH BUILD, TO WHAT TO CHILL IMMEDIATELY UPON HIS RELEASE FROM A BULLVIAN PRICES FOR A MITTING WITH ALLENDE AT VALPARATIO. THE SUMMED PRISIDEDITAL BASE, SHORTLY AFTER THIS AND AFTER IT WAS ASSOCIATED THAT WE WOULD WORK HENCEFORTH IN THE CHILEAN INFORMATION OFFICE, DEBRAY TOOK OFF FOR HAVANA.
- 6. ALSO APROPO ALL THIS, NOTE THAT AFTER NEEMS OF PROTECTS BY PRIVATE LANDOUGERS AND SMALLER FARGERS ABOUT ILLEGAL LAND SETZURES BY PERSAUS AND INDIANS UDER THE INSTIGATION OF MADIST-CASTROLIE MIR CLURFS OPERATING IN SOUTHERN CHILE, THE GOVERNMENT HAS DONE NOTHING TO COMPACT THE SITUATION ALTHOUGH ALLENDE HAS LONG PROMISED RELIEF. ONE EXPLANATION FOR THE OFFICIAL LETHALGY ON THIS PROBLEM IS THAT ALLENDE REALLY WANTS TO DO LITTLE ON NOTHING SO HE OF EXPLOIT THE ILLYGAL SQUATTERS AS SOUNDED OF INTRECT COMMISSION FOLLITICAL PRESENCES ON THE CONSERVATIVE AND LANDED OPPOSITION.
- 7. A FEW HOURS BEFORE DEPARTING CHILE ON OUR LAST TRIP (MAR. 4), I RECEIVED A CALL FROM A LONG-TIME FRIEND WHO MAS A LOWER CATEGORY JOB IN THE SAN CRISTOBAL AND IS THUS IS CAUGHT UP IN THE TRADE UNION CURRENTS THERE. THE FRIEND SAID UNION LEADERS HAD BEEN RECENTLY ASKED BY ALLENDE TO OBTAIN AS MUCH EVIDENCE AS POSSIBLE ON THEIR CHARGES OF HOTEL HISMANAGEMENT AND WASTEFUL ADMINISTRATIVE PRACTICES IN SUPPORT OF THEIR DEMANDS FOR NATIONALIZATION OF THE HOTEL.
- 8. NOTING MEAL'S MEMO TO VALLACE FEB. 25 REGARDING THE POST TAKEOUSE CAPPELLO REPORTS THAT PHILIPS IS ALSO APOUT TO SELL OUT TO THE CHILEAN GOVERNMENT. HE DIDN'T HAVE THE SPECIFICS BUT SAID HE UNDERSTOOD IT INVOLVED WILL ABOVE MAJORITY CONTROL. WE EXPECT MORE ON THIS SOON.

REGARDS. BERRELLEZ. ORIGINAL TO MR.HENDRIX
COPIES TOMR GERRITY MR PERKINS
MR DUNNETT MRWALLACE
MR DUNLEAVY MR GUILFOYLE
MR GOLDMAN

· (2) LATIN AMERICA MFG.

AIBEL BENNETT COOKSON	DUNLI MURTA GENT!	NUGH	GERRITY HAMILTON HAMIVEY	RÛNYON KNORTZ KEL'LEP, I.H.	MC CABE MC NEILL - PERRY	SCHAFFER • WEADOCK
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DATE MARCH 24, 1971 1935-C

CC

GERRITY, WALLACE, PERKINS, GUILFOYLE, DUNLEAVY, STINSON, GOLDMAN, DUNNETT - 17749 NY

Personal and Confidential

N.C.D. (NO COPIES DISTRIBUTED) . BERELBIETEDDE CONTRETE CONTRE

..LA-1091/C

1. A STRONG HINT THAT THE CHILEAN GOVERNMENT MAY OFFER TO BUY OUT CHILTELCO ON A PERU-ITT TYPE FORMULA IN THE FIRST ROUND OF FUTURE NEGOTIATIONS HAS EMERGED FROM RELIABLE INFORMATION REACHING US FROM THE PUBLIC SERVICE COMMISSION (SERVICIOS ELECTRICOS) .

ELECTRICOS).

2. BASE ON THIS INFORMATION, THE BELIEF HOW IS THAT FOR FUTURE
POLITICAL AND FINANCIAL STRATEGY CONSIDERATIONS, THE GOVERNMENT
WILL CONCRDE TO ITT THE FULC RATE INCREASE REQUESTED. THUS.
WHEN THEY DO TAKE OVER-AS THIS IS THE ULTIMATE PLAN- THE RATE
INCREASE ONUS WILL DE ON ITT, NOT ON THEM.

3. THE PURLIC SERVICE COMMISSION HAS ASKED CHILTELCO FOR FIGURES
FOR THE PREPARATION OF WHAT THEY CALL A "DEFINITIVE REPORT"
ON THE COMPANY'S REAL VALUE TO SERVE AS A BASE FOR THE PURCHASE

OFFER.

4. THE REQUESTED CHILTELCO INFORMATION WILL BE TURNED OVER TO INTERIOR MINISTER JOSE TONA AND THE PUBLIC SERVICE COMMISSION SUPERINTENDENT, JAINE SCHATZ, BY FRIDAY, MARCH 27. TOHA AND SCHATZ ARE ON THE COMMISSION NAMED BY PRESIDENT ALLENDE TO LOOK INTO THE RATE MATTER.

5. THE PUBLIC SERVICE COMMISSION HAS EXHAUSITIVELY DOCUMENTED
TISELF ON 1TT'S SETTLEMENT WITH THE PERU GOVERNMENT WHICH THEY
REGARD AS EXTRAORDINARILY FAVORABLE TO THE NATIONAL INTEREST AND ITF.

6. FROM ALL THIS, WE GATHER THAT THE GOVERNMENT WILL COME UP WITH AN OFFER TO BUY THE COMMANY. THE PRICE OFFERED WILL BE BASED ON THE BOOK VALUE LEGS THE TOTAL MEMITTED ADROAD FOR LOAD INTEREST REPAYMENTS AND PROFITS SINCE 1931. THIS TOTAL, WE UNDERSTAND, RUBS TO MORE THAN EIGHTY MILLION DOLLARS, WHICH MEANS THEIR OFFER

VILL BE UNDER 100 MILLION, IF THAT.

7. WHAT REMAINS OBSCURE AT THIS STAGE IS JUST NOW THE GOVERNMENT WILL FINANCE THE PURCHASE PACKAGE. FROM A.I.D. WE FAVE LEARNED THEIR BALANCE OF PAYMENTS POSITION IS CURRENTLY SOUND, RUNNING

THEIR BALANCE OF PAYMENTS POSITION IS CURRENTLY SOUND, RUNNING OVER GOO DILLION DOLLARS. SMALLER REDENT SETTLEMENTS WITH FOREIGN COMPAGIES HAVE DEEN HADE IN DOLLARS.

THE PROSPECTS ARE THAT THE GOVERNMENT WILL GRANT THE RATE HOCKERSE DENIND A GEOSMOIA BARRAGE JUSTIFYING IT AS A MOVE FORCED UPON THE COVERNMENT TO PREVENT CHILTELCO'S BARRAPTCY CAUSED BY ITT HISMANAGEMENT WHICH COULD LEAD TO MORE UNEMPLOYUSET.

THE EMPHASIS WILL BE ON LET HATHER THAN CHILTELCO MIGMANAGEMENT DECAMED THIS HOURD HAVE BEEN CORE POLITICAL TOWART.

AT THE SAME TIME, THE GOVERNMENT WILL ANHOUNCE IT WILL NATIONALIZE CRILIELCO AS A MEASURE IN DEFENSE OF THE NATIONAL TRIERESI. THIS WOULD PACIFY THE HOTHEADS. THOSE WITH SHORT

MEMORIES WID HAVE PROBABLY FORMATION THE COPPER MINES LESSON:

THE THREAT FOLLOWED BY QUIST, PROLONGED MEGOTIATIONS.

10. THE RATE INCREASE CONCESSION WOULD NOT BE A POLITICALLY UNPOPULAR MOVE BACAUSE ITS EFFECTS WOULD BE FET, LANGELY BY THE UPPER MIDDLE AND UPPER CLASSES THAT CAN AFFORD TELEPHONE SERVICE AND WHERE THE BULK OF GOVERNMENT OPPOSITION IS CONCENTRATED.

11. JUST HOW THE PERU FORMULA WOULD BE APPLIED REMAINS VACUE.

THE GOVERNMENT MAY DECIDE THERE'S AN AREA OF INVESTMENT IN
WHICH WE WOULD BE INTERESTED, BUT THERE'S NOTHING INMEDIATELY
VISIBLE. COULD CREAKE BE ENLARGED AS A FACTORY CONCEPT

VISIBLE. COULD CSESAC BE ENLARGED AS A FACTORY CONCEPT

EMBRACING OTHER ELECTRONIC PRODUCTS WITH A GOVERNMENT-GUARANTEED

ANNUAL SALES VOLUME? THIS IS A POSSIBILITY WE CONSIDERED.

12. ALL THIS LEAVES UNANSWERED THE QUESTION OF THE HOTELS. STATE—
CONTROLLED NEWSMEDIA PRESSURES TOWARD HATIONALIZATION OF THE
SAN CRISTOBAL SHERATON HAVE BEEN INCREASING.

13. EQUALLY STRON ATTACKS AGAINST CHILTELGO'S SERVICE ALSO HAVE
BEEN MORE FREQUENT WITH THE EMPHASIS AS THE CULPRIT ON 1TT
RATHER THAN CHILTELCO. A RELATED RECENT DEVELOPMENT WAS THIS:

14. REPLYING TO AN OFFICIAL REQUEST FROM A CHRISTINA DEMOCRAT

SENATOR (FERNANDO SANHUEZA), JAIME SCHATZ SENT IN A FORMAL
(WRITTEN) REPLY IN UNICH HE SAID HE NAD DOCUMENTARY EVIDENCE
OF COMPANY LAPSES IN PROVIDING RESTER SERVICE. SENATOR SANHUEZA OF COMPANY LAPSES IN PROVIDING BETTER SERVICE. SENATOR SANKUEZA
SAID NE NAU MADE HIS OFFICIAL REQUEST TO SCHATZ DECAUSE OF
CONTINUOUS COMPLAINTS OF POOR SERVICE. NE DID NOT IDENTIFY THE COMPLAINANTS.

15. AS PUBLISHED IN THE LOCAL NEWSMEDIA ON MARCH 23, THE REPORT INDICATED SANNUEZA'S REQUEST FOR THE SCHATZ REPORT WAS MADE 19 JANUARY. THERE WAS NO INDICATION WHEN SCHATZ REPLIED-WHETHER IN JANUARY. THERE WAS NO INDICATION WHEN SCHATZ REPLIED-WHETH IT WAS DEFORE OR AFTER THE MARCH TO MEETING OF ITT EXECUTIVES

MITH ALLENDE.

IN ESSENCE, SCHATZ REPORTED THAT HIS INVESTIGATION REVEALED

"NEGLIGENCE IN THE DIRECTION OF TECHNICAL ASPECTS, INCOMPLETE
TRAINING OF PERSONNEL AND FAILURE TO MAINTAIN AND ADEQUATE
MAINTENANCE PROGRAM", SPECIFIC FAULTS MENTIONED URRE INFERIOR
SERVICE DURING PEAK LOAD PERIOD (11:30A-12.30P) WHEN WRONG AND BUSY NUMBERS PROLIFERATED. HE ALSO SAID CHILTELCO HAD NOT INVESTED IN OR REPLACED EQUIPMENT REQUIRED BY SANTIAGO'S GROUTH.

17. A POLITICAL REPORT WILL FOLLOW SEPARATELY UPDATING THE SITUATION

REGARDS.

BERRELLEZ.

END OF MESSAGE.

ORIGINAL TO MR HENDRIX/YPM COPIES TO MR GERRITY/33RD.FL

> MR WALLACE MR PERKINS HR GUILFOYLE HR DUNLEAVY

HR STIMSON HR GOLDHAN

HR DUNNETT MR BENNETT

Mr. H.S. Geneon

March 26, 1971

E.J. Gerrity

Chilean Election

Bob Berrellez reports that reliable sources in Santiago are estimating that the incumbent administration will probably carry 40 to 46 percent of the vote in municipal elections, April 4. This will contrast with 36.3 percent in the presidential elections.

However, the Marxist coalition (UP) that put Allende in the presidency is shooting for 50 percent, or better. We will update this estimate next week.

cc: Messrs. R.E. Bennett

F.J. Dunloavy

H. V. Hendrix

TO HENDRIX - ITTHO NY BERRELLEZ FROM

DATE MARCH 25, 1971

RECEIVED IN CRYPTLE RECEIVED 2:00PM EST/RD ITT COMMUNICATIONS 2003/C'

GERRITY, WALLACE, DUNLEAVY, GUILFOYLE, STIMSON, GOLDMAN, PERKINS, DUNNETT - 1THO NY CC GOLDMAN, PERKINS, DUUNETT - ITTHO NY
DELAMANTY, GABRIELLONI, HERRSCHER - CSEA BA
JONES - ITTLA BA
WELLS - ITTCOM BA

GONZALEZ - SHERATON BAIRES

URGENT,,,,,,
SYSTEM CONFIDENTIAL LA-1097/C

PART ONE OF TWO PARTS

SUBJECT: CHILEAN POLITICAL

1. THE CHILEAN MUNICIPAL ELECTIONS ARE SCHEDULED APRIL 4. THEY INVOLVE 3.8 MILLION REGISTERED VOTERS AND 8,180 CANDIDATES FOR THE 1,653 CITY COUNCIL JOBS.

2. ALTHOUGH AT THE BOTTOM RUNG POLITICALLY, THE ELECTIONS ARE CLEARLY THE FIRST TEST OF STRNGTH FOR THE MARXIST COALITION (UP) THAT PUT SALVADOR ALLENDE IN THE PRESIDENCY LAST FALL.

3. THE RESULTS, IF STRONGLY IN FAVOR OF THE MARXIST COALITION, COULD BE TRANSLATED BY THOSE PRESENTLY IN POVER AS A MANDATE WITH WHICH TO SWING THEIR "TRREVERSIBLE SOCIAL REVOLUTION" TOWARD THEIR ANNOUNCED GOALS WITH SOMETHING LESS THAN THE MODERATION THUS FAR EXHIBITED. FOR EXAMPLE:

NODERATION THUS FAR EXHIBITED. FOR EXAMPLE:
SIZING UP THE APRIL 4 VOTE, LUIS CORVALAN, SECRETARY GENERAL
OF THE COMMUNIST PARTY, TOLD THE PARTY'S PLENARY SESSION
RECENTLY: "IF UP OBTAINS THE SAME 36.3 PER CENT REGISTERED RECENTLY: "IF UP OBTAINS THE SAME 36.3 PER CENT REGISTERED IN THE SEPTEMBER A PRESIDENTIAL ELECTIONS OR IF THE GAIN PERCENTAGEVISE IS SLIGHT, OUR FAILURE WOULD BE PROCLAINED INSIDE AND OUTSIDE THE COUNTRY AND OUR PATH WOULD BE MADE DIFFICULT. IF, ON THE CONTRARY, WE HAVE A LARGE GAIN, IF WE OBTAIN MORE THAN 50 PER CENT OF THE VOTES OR SOMETHING NEAR THAT, ANOTHER ROOSTER WOULD CROW. WE WOULD CROW AND WE'D BE IN A POSITION TO HIT THE ENEMY HARDER, TO ACCELERATE FULFILLMENT OF OUR PROGRAM AND TO MOVE, FROM SOCIAL AND ECONOMIC TRANSFORMATIONS, TO INSTITUTIONAL CHANGES CONTEMPLATED IN THE UP PROGRAM AS RELATES TO THE CONGRESS, THE MUNICIPAL GOVERNMENT AND THE JUDICIARY SYSTEM. THEREFORE, WE NEED TO DO ALL POSSIBLE FOR A UP VICTORY".

System Confidential

5. THIS MEANS THAT THE MARXIST COALITION, IF VICTORIOUS BY
A LARGE MARGIN, WOULD FEEL FREE TO MAVE TOWARD THE ELMINATION
OF THOSE INSTITUTIONAL OBSTACLES THAT BAR THEIR OBJECTIVES;
SUBSTITUTION OF THE PRESENT TWO-NOUSE CONGRESS BY A UNICAMERAL
PARLIAMENT, REVAMPING OF THE JUDICIARY WHICH THE MARXISTS
HAVE TERMED 'BOURGEOISE' AND 'OUIDATED'. SINCE THESE CHANGES
WOULD INVOLVE CONSTITUTIONAL AMENDMENTS, THE PRESIDENT CAN
RESORT TO A LEGAL ANTIONAL REFERENDUM TO BRING THEM ABOUT.
HE WILL TRY THE REFERENDUM FAIN IF HE FEELS HE HBS A MANDATE.
6. THE PRESENT INDICATIONS FROM RELIABLIST SOURCES TO DAYS BEFORE
THE ELECTION ARE THAT THE MARXIST COALITION WILL REGISTER
UPWARD OF 40 PER CENT AND PERHAPS AS HIGH AS 46 PER CENT
(AGAINST 36.3 IN THE PRESIDENTIAL ELECTION).
7. WITHIN THE MARXIST COALITION, THE COMMUNIST PARTY AND THE
SOCIALISTS WILL TAXE THE BIGGER SHARE OF THE VOTE, OVER 30
PERCENT, AND THE RADICALS LESS THAN TO PER CENT. THE LAST
YARDSTICK OF RELATIVE STRENGTH, THE 1959 CONGRESSIONAL
ELECTIONS, GAVE THE COMMUNISTS 15.9 PER CENT OF THE TOTAL
VOTES CAST, THE RADICALS 15 PER CENT AND THE SOCIALISTS 12.2
PER CENT.

PER CENT.

PER CENT.

8. ON THE OPPOSITION SIDE, THE RIGHTWING NATIONAL PARTY (20 PER CENT IN THE 1969 CONGRESSIONAL VOTE) IS EXPECTED TO MAKE SOME GAINS DECAUSE OF THE POLARIZATION OF ANTI-MARXIST ELEMENTS AS A RESULT OF THE 1970 ELECTIONS. HOWEVER, THEY ARE NOT EXPECTED TO OVERTAKE THE MAJOR POLITICAL FORCE IN THE COUNTRY, THE CHRISTINA DEMOCRATS WHO WON 19-8 PER CENT OF THE 1969 CONGRESSIONAL VOTE.

9. SUMMING UP: THE RELIABLEST PRE-ELECTION INDICATORS AT THIS POINT ARE THAT THE MARXIST BAND WILL FALL SHORT OF THEIR 50 PER CENT OBJECTIVE. WITHIN THE MARXIST COALITION, HOWEVER, THE READJUSTMENT OF RELATIVE STRENGTHS VILL PROBABLY BRING ABOUT A RESHUFFLING OF KEY CABINET JOBS TO GIVE BIGGER REPRESENTATION TO THE COMMUNISTS AND SOCIALISTS. THIS MEANS THE REMOVAL OF CABINET MEMBERS REPRESENTING THE WEAKER PARTIES, LIKE THE PARTIES OF INSTANCE

CABINET MEMBERS REPRESENTING THE WEAKER PARTIES, LIKE THE RADICALS, FOR INSTANCE.

AN UNANSVERABLE QUESTION AT THIS POINT IS HOW A FAILURE TO SURPASS THE 50 PER CENT MARK -AND THUS THE ABSENCE OF A MANDATE - WILL AFFECT THE FAR-OUT LEFTIST FRINGE THAT FEELS THE COALITION LACKS THE POWER TO ENFORCE THEIR DOGNA AND WANT A VIOLENT SOLUTION.

ANOTHER SUMUP WILL BE PREPARED JUST BEFORE THE ELECTIONS BECAUSE OF THE SWIFTLY CHANGING SCENE. THE MARXISTS ARE AS BUSY ELECTIONEERING AS THEY WERE IN THE PRESIDENTIAL ELECTIONS. PRESIDENT ALLENDE HAS PERSONALLY TAKEN AN ACTIVE HAND IN THIS. HE IS EVERYWHERE AND IS BUILDING A LARGE PERSONAL FOLLOWING. STUDENTS OF CHILEAN HISTORY SAY THAT HE HAS BEEN PERSONALLY IN CONTACT WITH THE PUBLIC AS NO OTHER PRESIDENT BEFORE HIM. IN CONTACT WITH THE PUBLIC AS NO OTHER PRESIDENT BEFORE HIM.

REGARDS.

BERRELLEZ.

ORIGINAL TO MR HENDRIX COPIES - TO MR GERRITY MR WALLACE MR DUNLEAVY MR GUILFOYLE MR STIMSON MR GOLDHAN MR PERKINS MR DUNNETT

END OF MESSAGE.

stem Confidentia

(2) LATIN ABERICA MFG.

AVY GERRITY	RUNYON	MC CABE	SCHAFFE
	KNORTZ KELLER, J.H.	MC NEILL PERRY	WEADOCK
BRITTENHAM	FAIRFIELD	GUILFOYLE	MATHAI
CROSBY KLZWHAMMER	FLAKS PIERSON	HODGSON KINNAMAN	MOSSBERG THEOFEL
	BRITTENHAM CROSBY	N HANWAY KELLER, J.H. BRITTENHAM FAIRFIELD CROSBY FLAKS	NUGH HAMILTON KNORTZ MO MEILL N HANWAY KELLER, J.H. PERRY BRITTENHAM FAIRFIELD QUILFOYLE CROSBY FLAKS HODGSON

2055

THIS IS A CRYPTEL 240 MESSAGE "EARTH"

System Confidential

THIS IS ITTLA BA 10.00 AM/CC

TO HENDRIX - ITTHQ NY FROM BERRELLEZ DATE HARCH 26, 1971 RECEIVED IN RYPTEL
RECEIVED 9;15AM EST/RD
1TT COMMUNICATIONS 2055/C

CC GERRITY, WALLACE, DUNLEAVY, GUILFOYLE, STIMSON, GOLDHAN, PERKINS, DUNPETT - ITTHO NY DELAMANTY, GABRIELLONI, HERRSCHER - CSEA BA JONES - ITTLA BA WELLS - ITTCOM BA GONZALEZ - SHERATON BAIRES

URGENT,,,, SYSTEH CONFIDENTIAL LA-1102/C

SUBJECT: CORRECTION IN CHILEAN POLITICAL (YESTERDAY'S LA-1097/C)

1. PARAGRAPH 8 OF CHILEAN ELECTION SITUATIONER YESTERDAY SHOULD READ IN LAST SENTENCE: HOUSER, THEY ARE NOT EXPECTED TO OVERTAKE THE HAJOR FOLITICAL FORCE IN THE COUNTRY, THE CHRISTIAN DEMOCRATS 4HO NON 29.8 PER CENT OF THE 1969 CONGRESSIONAL VOTE (29.8 PER CENT INSTEAD OF 19.8)

REGARDS.

BERRELLEZ.

ORIGINAL TO MR HENDRIX
COPIES TO MR GERRITY MR WALLACE
MR DUNLEAVY MR GUILFOYLE
MR STIMSON MR GOLDMAN
MR PERKINS MR DUNNETY

END OF MESSAGE.

System Considertial

(2) LATIN AMERICA MFG.

AIBEL DU.!LEAVY GERRITY RUNYON MC CARE SCHAFFER REMUETT KHOPTZ HURTAUGH HAMR. TON NO REILL EE/DOCK COOKSON CEPEEN HARRAY KELLER, J.B. PERRY ANSPACE BRITTERHAM FAIRFIELD NATHAL GUILFOYLE BARNES CROSBY FLAKS HODGSON MOSSBERG KLEMHALLICA PIERSON KINNAUAN THEOFEL KOLLL:EYER SCARKS

Sidion bush bearing

Mr. H.S. Geneen

April 2, 1971

E.J. Gerrity

Attached is a memo received today by phone from Bob Berrellez with a report on the upcoming Sunday elections in Chile. The best estimates that Bob has been able to get are that Allende's party--the UP-- will probably get between 42 and 45 percent of the vote.

Apparently last minute activity by Frei is adversely affecting Allende.

SYSTEM CONFIDENTIAL

System Confidential

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION INTERNATIONAL HEADQUARTERS

70 H. Hendrix (ITTLABA)

DATE April 2, 1971

FROM R.

R. Berrellez (by phone from Santiago, Chile)

WHEN REPLYING, PLEASE QUOTE FILE

SUBJECT Chilean Situationer

- 1. Prospects are not as bright as they were a week ago for the governing Marxist coalition. in Sunday's municipal elections, the first major test of ballot strength for President Allende's forces and his opposition.
- 2. The most reliable forecasts (there have been no official or scientific polls) indicate that Allende's popular Unity Front (U.P.) may take as much as 45% of the total vote cast and perhaps as little as 42%.
- 3. Although either figure represents a hefty gain of the 36,3% performance by the Allende coalition in the September 1970 Presidential election, these results will be a disappointment for the ruling group which has been aiming for a better than 50% performance.
- 4. The main reasons for the slight shift in voter sentiments, according to these forecasts, are a.) Continued high unemployment and b.) ex-Presider Frei's personal intervention in the electioneering on the side of the oppositior Christian Democrats.
- 5. Frei and the Christian Democrats have been emphasizing unemployment in their election campaign. Frei stepped belatedly into the campaign within the last 2 weeks and in a radio broadcast last night struck forcefully at joblessness, the state control of information (example cited: the government owned TV station, Channel 7, once free of idealogical commitments, now reflects, he said, a government propaganda line), and at the high level of currency in circulation without real backing. This, Frei said, will lead to inflation later.
 - 6. It is understood that Frei moved belatedly into the campaign as a matter of psychological timing. A consummate politician, he is said to have felt a late barrage would be more effective than early sporadic outbursts. But, another consideration, other sources say is that Frei felt his own Christian Democratic party was losing ground and needed reinforcing because this is the vehicle he hopes to use again in the future in another bid for the president
 - 7. There are no reports of unrest anywhere and Santiago is calm with clear crisp early fall weather prevailing.

System Confidential

H. Hendrix Page 2 April 2, 1971

8. Know you will advise me ASAP if you want a Sunday night vote summary-for early Monday morning distribution. If so, let me know if you want me to phone Dunnett at home or telex ITTHQ directly.

Regards.

/kmp

cc: E. J. Gerrity

F. J. Dunleavy

E. R. Wallace K. M. Perkins

C. N. Goldman

E. Dunnett

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•	L !		i	11	
10	FROM	E. J. GERRITY	10	FROM	
	-	J. A. ABBOTT	<u> </u>	J. P. JANNUZZO	
		H. ANDERSON		L J. KALLSEN	
		J. D. BARKER	<u>.</u>	J. D. KEAVENY	
			<u> </u>	D. H. KIERNAN	
	-	D. D. BEARD	<u> </u>	M. D. KIRKWOOD	
		J. A. CARLE	<u> </u>	J. L. LOWDEN	
<u> </u>		T. H. CASEY	Ş	G. J. MASSAUA	
	 	T. J CONNOLLY	<u> </u>	T. S. MENKEL	
		R. A CRONENWETT	ž	W. R. MERRIAM	
		L. B. CUTTER	ļ	J. D. NEAL	
		R. D. DEASY		R. V. O'BRIEN	
		G. A. DELHOMME		K. M. PERKINS .	
		M. M. DE LORME		A. J. PUGLIESE	
ا د		E. DUNNETT		J. F. RYAN	
		R. H. FITZGERALD		J. E. SCHLAIKJER	
-7		J. Empleanisments		R. L. SCHMIDT	
		T. C. FLYNN		A. D. SQUEGLIA	
		J. J. FOX		H. J. TAGGART	
		E. W. FRISBIE		R. K. TAUBE	
1.		R. L. GRECO		K. J. VIGUE	
7		MANAGE HEAVE	;	E. R. WALLACE	
		J. V. HORNER		E. A. WHITE	
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i	Follow up			Initial and Return	
Summarize			Discard		

April 5, 1971

MEMORANDUM TO:

Mr. H. S: Geneen

Mr. R. E. Bennett Mr. F. J. Dunleavy

Mr. H. J. Aibel

Mr. E. J. Gerrity.

SUBJECT:

CHILEAN MUNICIPAL ELECTIONS

Attached is the breakdown received this morning from Benny Holmes on the outcome of the local elections yesterday in Chile. The 48.7% is about what was predicted for the Popular Unity. As yet the 2.1% of the Social Democrats is unknown as to their affiliation. This in coalition with the Popular Unity could be difficult.

There is no doubt that this strengthens Allende's position to continue to push ahead with his socializing of the Chilean government. It looks like it is awful close if he were to attempt a referendum to dissolve Congress or modify the Constitution. We are awaiting more detailed reports from Benny Holmes and Bob-Berrellez of Public Relations who is on site.

Enclosure

W. Guilfoyle



Latin America Telephone Operations Group

320 Park Avenue New York, N.Y. 10022 Tel. (212) 752-6000

70: · Mr. J. W. Guilfoyle

Date April 5, 1971

From:

W. Holmes

Subject:

Chilean Elections

Benny Holmes called this morning and advised that the following were the latest results in Sundays Municipal Elections:

Socialist	21.87%
Communist	16.67
Mapu	.45
Padena	1.01
Radical	8.70
Total Popular Unity	48.70
Christian Democrats	24.95
Nacional	18.70
Right wing Radicals	3.91
	47.56

There is an additional 2.51% votes collected by a group named Social Democrats. It is uncertain as whether this party is affiliated with popular unity, in which case the latter's group would have 51.21%, or whether the Social Democrats are independent, or considered an opposition party, that being the case opposition would have 50.07%.

WH/ml cc: Mr. J.M.Stimson

INTER-OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036

To:

Mr. Ed Dunnett

DATE: April 8, 197

FROM

I D Nest

SUBJECT:

Chile - New U. S. Ambassador

Confirming our conversation, I spoke today with John Fisher, Director of Chilean Affairs at the State Department, and asked that he put ITT on the list to_see the new U. S. Ambassador to Chile, Nathaniel Davis, at an early date. Mr. Fisher said he would be glad to do so.

J. Guilfoyle

April 19, 1971

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E. Dunnett

Chile - New U.S. Ambaesador

Jack Neal spoke with John Fisher, Director of Chilean Affairs at the State Department the other day regarding your meeting with the new U.S. Ambassador to Chile, Nathaniel Davis, prior to his departure for Chile.

Mr. Fisher said he would be glad to do so at an early date. I'll follow up with Jack.

ED:pm

F. J. Gerrity
F. R. Wallace
K.M. Perkins
H. Hendrix

and the second s

4/3/

OHILEAN CHAMBER OF DEPUTIES APPROVES
OOPPER-INDUSTRY NATIONALIZATION

SANTIAGO -OJ- THE CHILEAN CHAMBER OF DEPUTIES APPROVED A CONSTITUTIONAL REFORM BILL SUBMITTED BY PRESIDENT ALLENDE NATIONALIZING THE MULTI MILLION-DOLLAR U SOPERATED COR. CK-MINING INDUSTRY

THE BILL MUST BE RETURNED TO THE OHILEAN SENATE FOR APPROVAL BECAUSE OF MINOR MODIFICATIONS MADE BY THE LOWER HOUSE

EJG:pm (IIH)

File Copy

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

INTERNATIONAL HEADQUARTERS

H.S. Geneen

E.J. Gerrity

April 14, 1971

HEN BEPLYING, PLEASE QUOTE FILE

MRECT Chile Elections

Now that the tabulations are complete in Chile, it is apparent that President Salvador Allende and his Popular Front Coalition won almost 50% (49. 73) of the vote in the recent municipal elections.

Although Allende was aiming at more than 50% of the vote, his gain from 36% in the presidential election still is impressive.

From all reports there is little doubt that Allende will use his new political mandate to move rapidly toward creating a tight socialist state.

The Christian Democrats, who got about 27% of the vote, remain the chief opposition party in the Congress.

Before the end of this year, it is considered likely that Allende will stage at least two plebiscites to strengthen his hand. The first probably will call for establishment of the controversial Castro-type "People's Tribunals" or popular courts -- first step in dismantling the Chilean judicial system. The other will be to get rid of the present two-chamber legislature in favor of a .aingle-house "Popular Assembly,"

With the election out of the way it also is considered probable that Allende will launch a concerted effort to silence the remaining opposition news media in Chile.

Insofar as Chiltelco and other ITT interests are concerned, observers · feel the Allende election gains will tend to make him less flexible in negotiations. We are slated to receive his government's proposal on Chiltelco before the end of this month. Preliminary work has started on negotiations to sell the Hotel Carrers to the government for use as an office building. B. Holmes and J. Gonzalez of Sheraton are handling the latter.

cc:

F. Dunleavy E. Dunnett

H. Hendrix K. Perkins R. Berrelles (Baires) W.Merriam/J. Neal

C. Goldman

J. Stimson

J. Guilfoyle

(Washington)

E. Wallaco

DRAFT May 5, 1971

The Honorable William P. Rogers Secretary of State Washington, D. C.

Dear Secretary Rogers:

A PROPERTY AND SOUTH AND SOUTH ASSESSMENT

On March 10, 1971, executives of International Telephone and Telegraph
Corporation met with Chilean President Salvador Allende. The purpose of the
meeting was to determine what the future of ITT-owned Chiltelco (Chile Telephone
Company) would be under Allende's Administration. At that time, he stated that
he and his government did not want to expropriate or nationalize fully, but
emphasized that he would prefer a partnership arrangement of some sort although
he did not go into detail.

President Allends on that day said he would name a commission to review and study the problems and plans of Chiltelco, and that the commission would make ITT a proposal or an offer in 30 to 40 days. Further, he would expect us to return with a counter offer if we found the commission's recommendation unacceptable.

Subsequently, on April 28, a radio broadcast (Radio Mineria) in Santiago at 1300 hours local time said, and we quote:

"On May 6 the telephone company will become Chilean. The government has already notified the manager of this ITT subsidiary that the telephone service will then be nationalized. This decision was reached after a study between the government and the unions of the company. The latter last January had unanimously requested 'the nationalization of the telephone company as fast as possible.' Only this way, workers said, the total paralyzation of this company will be prevented and the jobs of its 6,000 employees will be guaranteed.

water and a second

"From a political standpoint, this matter had been decided a long time ago. The United Popular Front program calls for the nationalization of all monopolies and strategical services. These nationalizations will take place as soon as proper studies are accomplished.

"The Chile Telephone Company shall be bought at a rate of \$125 per line. The company owns some 150,000 lines in all. Also, when the same (astionalization) project is accomplished, some other ITT subsidiaries will be nationalized. ITT World Directories (Guias y Publicidad) for example, a corporation which lives only on the basis of printing the Chilean telephone books.

"The price Chile will pay for ITT is the same as was paid for the nationalization of the Peruvian Telephone Company.

"Benjamin W. Holmes, General Manager and Vice Chairman of the Board of the telephone company has already been notified about the situation through a letter dated April 26.

"The letter, sent by the Superintendency of Electrical Services, called for a ten-day deadline to finalize this nationalization. And, accordingly, the telephone company will then properly be defined as Chilean,"

The radio broadcast is of grave concern to us because the station is owned by the Allende Administration and the content of the broadcast can be construed as a "trial balloon" as to the intentions of Chile towards American property. Clearly, a purchase price of \$125 per line does not represent the true value, inasmuch as the actual cost is more in the neighborhood of \$_____ per line. Additionally, our Mr. Holmes has not been notified of this situation nor is there any letter dated April 26.

It is true that the Peruvian government nationalized the then ITT Peruvian.

Telephone Company. However, that action put us in a position of negotiating under extreme duress and the price received did not reflect the true value of this property.

Commensul

We are concerned, additionally, about the expropriation of our other facilities in Chile; specifically, our manufacturing facility, our communications facility, and

. 3 -

our hotel properties. The total value of our investment in that country is	
\$ and if this broadcast is any indication of the government's intention	8,
we feel that once again this company and its stockholders,	
it by another government.	

The purpose of this letter is to advise you that while we shall attempt to continue our dialogue with the Chilean government, we feel that, again, American properties will be expropriated without fair value and due consideration paid to the American owners.

We solicit your support and the support of the Department of State and the Administration in any manner which will prevent a repeat of the Cuban seizure and disregard of the rights of American citizens and businesses.

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Very truly yours,

5 21.3 111111 LĒ

IFJI 1A-YEXEAGSGUKHW

THIS IS A CRYPTEL 240 YESSAGE "YAGNET"

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THIS IS ITTLA EA 7.30 PH/OH

PERKINS- ITTHONY (VIA CSEA BA) TO BERRELLEZ- ITTLADA MAY 20, 1971 FACU

GERRITY, WALLAGE, GOLDVAN, STIMSON, DUNNETT - HEADRIX VITELOO PERRIAW NEAL - ITT WASHINGTON ಡು

URGENT

SYSTEM CONFIDENTIAL HARAMAR

LA-1555/E

TUBUEUT: CHILE

1) FIVE MONTHS AFTER BECOMING PRESIDENT, MARXIST PRESIDENTS SALVADOR ALLEIDE HAS SUCCESSFULLY COMPLETED THE FIVE MADOR PRELIMINARY STEPS HIS REGIME PLEDGED TO TAKE TOWARD THE TOTAL COLLECTIVIZATION OF CHILEEU THE FIVE ARE NATIONALIZATION OF A) THE COPPER INDUSTRY

A) THE COPPER INDUSTRY

B) PRIVATE BANKING AND GREDIT

C) BASIC MONOPOLIES (STEEL, TEXTILES)

C) STATE CONTROL OF IMPORTS-EXPORTS AND

E) A RADICALIZED AGRARIAN REFORM PROGRAM...

- 2) CHILEANULOGISTS BELIEVE THAT COMPLETION OF THIS FIRST PHASE OF THE PROGRAM, CARRIED OFF SMIFTLY AND MUTHLESSLY MOSTLY FOR PURPOSES OF POLITICAL CONSCLIDATION, WILL BE FOLLOWED BY A BUT LARGELY FOR ECONOMIC REASONS. A CLEAR IDEA OF WHAT IS TO COME MAY EMERGE FROM THE PRESIDENT'S STATE OF THE UNION MESSAGE TO GONGRESS TODAY (FRIDAY).
 - 3) RELIABLE GOURGES SAY THE MESSAGE WILL STRESS THE MESO FOR BROADER EXECUTIVE POMERS TO DEAL WITH THE SERIOUS ECONOMIC SITUATION. IT WILL IMPLY THAT IF THESE POMERS ARE NOT FORTH-COMING THE PRESIDENT WHAT RESCRIT TO A CONSTITUTIONALLY LEGAL CONTAINS NO REFERENCE. TO GOOWUNGSTITUTS AND THEIR TOMPOSTATE FUTURE. NOWEFFEED TO GOOWUNGSTITUTS AND THEIR TOMPOSTATE FUTURE. NOWEVER, AS AT NO TIME IN RECENT HISTORY, A MEASUR IMPERTABLE SHROUD OF SECRED STREENS THE PRESIDENTIAL MESSAGES CONTENTS. WHATEMER HAS LEAKED OUT AND DAYDOOLD, AT LEAST, WHEN IT REACHED USA PARK) AS WITH FIDEL CASTRO, ALLE DE SOMETIMES CAN HABBLY MAIT TO ASSAGE ANATHER TO SAY SUPLICIALLY. THUS OUR RELIABLE MESSAGES SAYSES AND ASSEST OF THE DISCONTAINES SAYSES.

AREA DEFECTED IN THE GOVERNMENT'S DRIET SUT EFFECTIVE PASSIBLES TO DOST SQUATTERS FROM PRIVATE FAMILY, SOME OF WHICH FACE AREA THE FACTORIES REMOVAL OF THE POOL WHO HAVE ILLEGALLY COORDIED NEW CONSTRUCTION AND ACTION BY THE NATIONAL GUARD TO MIPE COT QUETILLA BROUPS IN THE SCOTT IN MOST OF THESE ACTIONS, THE GOVERNMENT USED THE MOSTLE WHITS OF THE CARABINEROS, OR NATIONAL GUARDUN MUCH CRITIZED BY THE FAR LEFT.

K5. THESE STERN GOVERNMENT VEASURES B-OUGHT A CONDEMNATION ON TUESDAY FROM THE MIR, V A CASTROITE-VACIST GROUP. A CAMMINIOUS SUPPLASIZED THAT WHILE THE MIR VALUED THE ORIGINATES OF THE ALLENDE GOVERNMENT IT MAINTAINED AS UNAUTERABLE MIR'S "OBJECTATION TO DEFEND AND DIRECT THE LEGITIMATE MOBILIZATION OF THE POOR IN THE COUNTRY AND CITIES "TO DESTROY IMPERIALISTS AND THE ECURGEOISE.

6. THE GYERALL LONG RANGE PLAN TO TOTALLY SOCIALIZE THE COUNTRY REMAINS INTACT AND THERE IS NO QUESTION AMONG THE MOST KNOWLEDGEABLE GREENERS IN CHILE THAT WE WILL GET ZONKED EVENTUALLY INDEED THAS REGIME

EVENTUALLY UNDER THIS REGINE.

7. APROPO THIS THE MODD AT THE HIGHEST U.S. EMRASSY LEVELS IN SANTIAGO SEEMS TO HAVE CHANGED FROM PESSIMISM TO CUTMARD OPTIMISM --- AT LEAST ON THE PART OF AMBASSADOR KORRY -- ABOUT NEGOTIATED SETTLEMENTS OF CONFLICTS BETWEEN THE ALLENDE GOVERNMENT AND PRIMATE AMERICAN COMPANIES. AN IMPRESSION IS THAT MASHINGTON POLICY NOW IS AIMED AT MAINTAINING GOOD RELATIONS WITH CHILE AT ALL COSTS -- PERHAPS TO AMOID THE ACCUSATION ANEW THAT CHILE TURNED COMMUNIST, AS DID CUBA, BECAUSE WE TRUNED OUR BACKS ON ALLENDE. REGARDS RELATION ANEW THAT UNITED OUR BACKS ON ALLENUE.

VBERRELLEZ

END OF MESSAGE

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OSTITUTE STORE AND MOTOR RANS, A WORLDWIDE STRINGE OF IT

TARTIAGO DE CHIEF

PRIVATE-CONFIDENTIAL

To: Hendrix IT! ANY From: Berrelles BR Date: June 2, 1971

Subject -- Chile

- 1. Of immediate interest: Among the government team named to negotiate with ITT, the cat to wotch is Occar Garreton, the sub-secretary of the Kinistry of Economy. A member of the leftist extremist MAPU, Garreton—we have been told authoritatively—is the "hachet man" for the government in negotiations of these kind. We is 29, a lawyer with a keen eye for the jugular. He was prominent in the Rawlston Purina wipcout. On the opposite side may be Jose Toha, the minister of Interior, who follows the more moderate Allende line. Although ie is a member of the team, we are told he may or not put in total appearances. We are trying be develop backgrounders on the other government team numbers.
- 2. The advise to us from people who have been through the experience is to take a polite but firm line on our objectives; that Allende is still very much concerned with rocking the boot abroad at this point—when the copper takeover is nearly complete—so as not to create an adverse image in hashington.
- 3. Generally: the political picture unchanged from the last trip. However: The soviet mission currently in Chile has offered the Chilean government a team of mining experts to help this country develop its newer resources. The soviet mission here is headed by Vladimir Fixoleevich Kosin, vice minister of non-ferrous metals. According to Max Yacobson, director of the Copper Corporation's Supply Commission, the mission is here to help "resolve some of the existing problems in the copper industry," Talks have led to on a processed to interest a symbol of the statement to the symbol of the symbol of the copper industry.



SHERATON HOTELS AND MOTOR INNS, A WORLDWIDE SERVICE OF THE

SANTIAGO DE CHRE

Yacokson told newsmen the Soviet Union would help in the project to transform El Teniente (Kennecott) facilities at Phentranga into the main copper production outlet for the country: Additionally, the Russians would help improve the copper electrolysis processes in order to boost production, Yacokson said. 🗪

The Russian mission is visiting coppor installations throughout the country.

co: Guilfoyle

Goldman

Bogio &

Connory

PRIVATE-CONFIDENTIAL

TO: HENDRIX ITTHONY
FROM: BERRELLEZ ITTLABA
DATE: JUNE 22,1971

SUBJECT -- CHILEAN SITUATIONER

- I. Events of the past two weeks contributed substantially to a growing fissure between the government and its opposition. They bared the dimensions of potentially explosive differences be tween the leftist extremists and the moderates (Allende) in the government coalition. Although most of the ingredients are apparent, there's presently nothing substantive to indicate either an imminent political crisis for the government or a coalescing of opposition forces.
- 2. Key factors in the change in the political climate were the assassination of Edmundo Perez Zujovic, topranking Christian Democratic Party figure (a former vice-president; President Frei's Interior Minister) and a spectacular one-man assault by a leftist extremist on the Police Investigations Headquarters. The attack resulted in the killing of three detectives. The assailant, armed with a submachinegum, was killed when a belt of dynamite sticks he wore around his waist exploded. He was identified as a leader of the VOPs, the far leftist terrorist band accused of killing Perez Zujovic.
- 3. The killing aroused a natural furor against violence. It moved the Christian Democratic party to renew its demand on

the president to (a) disarm all illegal armed groups in the country and (b) to restore all investigative and policing rights (removed partly by President Allende) to the Carabineros (the National Guard). The Christian Demogratic leadership said it would use all legal muscle to bring this about. As a first step, CD congressmen rejected an executive resolution to increase national budget funds to create 1.000 new jobs in the National Guard.

- 4. An official communique by the Christian Democratic congressional committee stressed the rejection was based fundamentally on the party's demand that the government immediately order the dissolution of all illegal armed bands (including the president's private guards) and the restoration of all policing powers to the National Guard.
- 5. Significant remarks in this respect were made by
 Narciso Irureta, president of the Christian Democrats, in an
 interview with "El Mercurio" (Sunday, June 20). Asked if he felt
 the government had acceded to the CD demands for the disarming of
 unauthorized militants, Irureta replied that nothing had yet been
 done. He added: "The policy the government follows in this
 matter and the decisions it takes or doesn't take will also condition
 the conduct of the Christian Democratic party".
- 6. Irureta asserted that while President Allende had been emphatic in proclaiming his support of the democratic system and constitutional legality, his affirmations often had been contradicted by the arbitrary acts and persecutions imposed on others by lesser government functionaries. The Christian Democratic party, he said,

always had been aware of the nation's fear that democracy could vanish and this was why the party "insisted on the statute of constitutional rights that President Alende and his parties obliged themselves to respect before Chile and the entire world". This was an allusion to the constitutional guarantees demanded by the Christian Democrats of Allende and his supporters as a condition to election of Allende as president by congress after he won a a plurality in the September vote.

- 7. The Christian Democrats, Irureta said pointedly, will use all constitutional and legal recourses to attain their most recent demands in the interests of pacifying the country.
- 8. Although the smaller opposition parties have echoed and supported the current CD line, there's no sign of a wedding of congressional forces. And there probably will be nor as the CD also has radical and moderate wings that could be alienated by such political accomodations.
- 9. During all this, the Chamber of Deputies censured and removed its own Directorate which was controlled by the UP, the government ccalition. This paves the way for the opposition to control the new Directorate. The Directorate only has legislative regulatory functions, but it can determine the speed with which certain legislation gets to the floor. It can also fix times and dates of special sessions.
- 10. In other developments: fresh signs appeared that private companies intervened by the government are going to fight back

through legal channels open to them. Four textile firms (Yarur, Sumar, Hirmas and Said) intervened by the government some time ago have decided to appeal in the tribunals for the restoration of their properties. The companies rejected the official allegations in aupport of the intervention which, they said, were based on spurious labor conflicts in an attempt to coerce them into selling out to the state. Furthermore, the companies said the 30-day maximum period that a company may remain intervened had passed and that in violation of the law the properties had not been restored to their proper owners. Their first appeal went to a Tribunal of Commerce (two government representatives, one minister of the court) which decided it had no competence to rule on the appeal. In doing so, however, it allowed the case to go to adjulication before a faction tribunal where the case now rests.

11. A Cuban ship "Arroyos de Mantua" is in Chilean waters ostensibly on a scientific mission. A National Party senator, Fernando Ochagavia, has asked the Navy sub-secretariat for fullest information on the Cuban ship's mission. He has formally requested information on: The specific nature of the mission, who asked for the scientific survey of Chilean shores, the convenience of having a Chilean pilot aboard the ship, as is routine in these cases involving foreign vessels. The senator also has asked information on operations said to have been carried out in Chilean waters by a Russian submarine.

12. U.S. Ambassad or Ed Korry left Monday for Washington. Before departing he donated 50,000 Escudos (a personal gesture,

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the report said) for flood relief. The story was well used in nearly all the news media, except the official press. Korry is up for consultations.

Eight to nine persons are reported dead as a result of the snow and rain storms Sunday and Monday. Damage to lower class housing was extensive.

cc: Gerrity, ITTHQNY
Wallace, "
Gulifoyle, "
Perkins, "
Dunnett, "
Goldman, "
Stimson, "
Merrian, ITT Washn
Neal, " "
Holmes, Chiltelco

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PART THREE OF FOUR PARTS

PUOTE

TRANSLATION

REPUBLIC OF CHILE DIRECTION OF ELECTRICAL-SERVICES AND GAS SANTIAGO

SANTIAGO, JULY 2, 1971

MR. JOHN W. GUILFOYLE, VICE PRESIDENT INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION NEW YORK

DEAR SIRE

WITH REGARD TO THE CONVERSATIONS HELD BY YOU, IN REPRESENTATION OF ITT, WITH MR. JOSE TONA G., MINISTER OF INTERIOR, REFERRING TO THE NATIONALIZATION OF COMPANIA DE TELEFONOS DE CHILE, THE GOVERNMENT WISHES TO RECORD THAT IT HAS MADE ALL EFFORTS DESTINED TO REACH A DIRECT AGREEMENT WITH ITT, WITH RESPECT TO THE VALUE OF CIC'S NET INVESTMENT. OF ÎTT,

OF CIC'S NET INVESTMENT.

FOR SUCH PURPOSE, A MEMORANDUM WAS PRESENTED IN WHICH WERE STATED THE NECESSARY CRITERIONS TO ARRIVE AT THE DETERMINATION OF A FAIR AND REASONABLE PRICE. NEVERTHELESS, ITT INSISTS ON MAINTAING ITS POSITIONS AND DOES NOT ACCEPT PRACTICALLY ANY OF THE OSSERVATIONS EXPOSED BY THE GOVERNMENT COMMISSION, WITH REGARD TO THE ESTIMATE OF THE COMPANY'S VALUE.

IN SPITS OF THESE CIRCUMSTANCES, TO PROVE THE GOOD WILL AND DISPOSITION OF THE GOVERNMENT TO PROCEED WITH THESE CONVERSATIONS, WE ARE GLAD TO DELIVER TO YOU MEMORADUM N. A, IN WHICH ARE STATED IN WRITING THE VERBAL PROPOSITIONS HADE TO YOU BY THE MINISTER OF INTERIOR, IN THE UNDERSTANDING THAT THEY MAKE POSSIBLE THE HAPPY END OF THIS NEGOTIATION.

VERY TRULY YOURS.

System Confidential

OSCAR GARRETON P. SUB SECRETARY OF ECONOMY, DEVELOPMENT AND RECONSTRUCTION

END OF PART THREE OF FOUR PUF

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N. 15

MEMORANDUN N. 4

/Sicili r

THE GOVERNMENT OF CHILE IS CLEARLY CONSCIOUS THAT THE PURCHASE OF COMPANIA DE TELEFONOS DE CHILE MUST BE OBTAINED THROUGH A FAIR AGREEMENT BETVEEN THE PARTIES, REACHED VITHIN THE FRANES OF OUN JURIDICAL ORDER, BUT VITHOUT LOSING SIGHT OF THE FACT THAT, IN CONCLUSION, THE COUNTRY'S INTEREST AND THE REEDS OF SERVICE USERS MUST HAVE PREFERENCE.

STARTING FROM THAT BASIC PREMISE, WE HAVE OBSERVED WITH CONCERN:

A) THAT COMPANIA DE TELEFONOS DE CHILE HAS PENSEVERED IN ITS POINTS OF VIEW, NOT ACCEPTING ANY OF THE OBSERVATIONS OF OUR GOVERNMENT CONCERNING THE EFFECTIVE VALUE OF ITS NET INVESTMENT,

B) THAT IT IS EVIDENT THAT THESE PREVIOUS CONVERSATIONS ARE DELAYING A SOLUTION. AND THE GOVERNMENT OF CHILE IS CLEARLY CONSCIOUS THAT THE

DELAYING A SOLUTION, AND

C) THAT THIS DELAY DOES NOTHING BUT INJURE THE PLANS OF THE GOVERNMENT ON THIS MATTER - WHICH ARE VASED ON THE BEST ATTENTION THE COUNTRY'S INTERESTS.

THEREFORE, IT IS PRECISE TO FIND ANOTHER MEANS TO REACH A

DEFINITIVE SOLUTION.
AS A WAY OUT OF THIS IMPASSE AND CONSIDERING THAT THE AS A ONT OUT OF THIS INTERSE AND CONSIDERING THE ASSOCIATION THAT THE PRESENT VALUE OF CTC'S INSTALLATIONS BE DETERMINED BY MEANS OF AN INTERNATIONAL APPRAISAL, CONSIDERING ITS YEARS OF LIFE, CONSERVATION, USEFULNESS, ETC., IN RELATION TO TECHNICAL ADVANCES

ADVANCES.

LTO MAKE THIS APPRAISAL, AN INTERNATIONAL COMMISSION WOULD BE ELECTED, BY MUTUAL AGREEMENT BETWEEN THE GOVERNMENT AND ITT, HADE UP OF EXPERTS, PENTAINING TO THE TELECOMMUNICATION ADMINISTRATIONS OF TWO EUROPEAN COUNTIRES, AFFILIATED TO THE INTERNATIONAL TELECOMMUNICATIONS UNION (U.T.T.) THE ABOVE IS WITHOUT PREJUDICE OF THE FACT THAT THE GOVERNMENT EXTRAORDINARILY INTERESTED IN STARTING IMMEDIATELY TO PLACE IN PRACTICE ITS NATIONAL TELECOMMUNICATION PLANS - AND FOR WHICH THE INSTALLATIONS OF THAT COMPANY ARE FUNDAMENTAL - ASSUME AS OF HOW THE ADMINISTRATION AND CONTROL OF IT. OBVIOUSLY, AND IN AGREEMENT WITH THE BASIC IDEA OF THESE PROCEDURES, THE COMPANY WILL BE RECOGNIZED ITS RIGHT TO OBTAIN AN INCOME FOR ITS INVESTMENTS, INCOME WHICH WILL BE PAID IN RELATION TO THE VALUE WHICH, DEFINITURLY, THE INTERNATIONAL APPRAISAL DETERMINES.

IT IS NECESSARY TO INSIST THAT THIS NEW PROPOSAL IS MADE IN THE SPIRIT OF THE GOVERNMENT OF ACTING WITHIN THE FRAME OF THE JURIDICAL PROVISIONS RULING AT PRESENT, TO FIND A RAPID SOLUTION TO THE PROBLEM BEING ANALYZED.

SOLUTION TO THE PROBLEM BEING ANALYZED.

DOUBTLESS, THIS STATEMENT DOES NOT SIGNIFY, IN ANY MANNER DOUBTLESS, THIS STATEMENT DOES NOT SIGNIFY, IN ANY MANS WHATSOEVER, THAT ANY OF THE POSSIBILITIES RENDERED BY OUR JURIDICAL AND CONSTITUTIONAL ORDER, BE LEFT VITHOUT BEING STUDIED, TO SOLVE THE PROBLEM IN AGREEMENT WITH THE HIGHER INTERESTS OF THE COUNTRY, IF THAT SOLUTION IS EXCESSIVELY DELAYED.

STOUGHU

HOLMES

ORIGINAL TO MR GUILFOYLE
COPIES TO ER GOLDMAN

•	•	(3) FRIII VMFUICKÜ I	LL, ·	
AIDEL BEHNETT COOKSON	DURLEAVY BURTAUGH GERFEN	GERRITY RUKYON HAMILTON KNORTZ HAMZAY KELLER	EC CABE EC HEILL J.H. PERRY	SCHAFFER • VALENTE SEADOCH
	BRITTCHEAN		till Pilition	

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July 9, 1971

MEMORANDUM TO:

Mr. H. S. Geneen

SUBJECT:

CHILE BOARD NOTE FOR INFORMATION ONLY

Political

The political situation continues somewhat the same as it has since the assassination with continued open feuding between the Christian Democrats and the Allen de U.P. Party.

It is anticipated that Aliende will sign into law sometime after July 11 the copper expropriation legislation. This can be signed any time from July 12 on.

Allende still has not signed the agreement with Cerro de Pasco due to internal conflicts in his own political organization who are protesting the agreement.

Earthquake

Last night there was a serious earthquake in Chile centering north of Santiago near Valparaiso. There were 30 to 40 reported deaths in Valparaiso most, we understand, caused by panic and people stempeding out of theaters and buildings. A detailed report as we have it, as of this morning, is attached.

Chiltelco Nationalization

On Tuesday this week we received Memorandum No. 4 from the government following my meeting with Minister of Interior Toha on June 26. (Copy attached.) We are preparing a reply which will be forwarded on Monday for Bennie Holmes to deliver to Garreton and Minister Toha. In the reply we plan to point out that they have not responded on rates as they had promised in my meeting with them on June 26, and while we have their Memorandum under study, we will submit a detailed reply in the near future. We plan to return to Santiago later next week following Washington OPIC meetings.

BROOMER MYD COSTIDIAS Plats

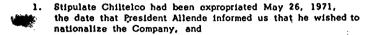
Mr. H. S. Gencen

- 2 -

July 9, 1971

OPIC

We had a meeting with the OPIC officers in Washington yesterday attempting to get them to:



 Agree to provide U.S. government full faith and credit guarantees on Chilean bonds that would be equal to the OPIC insured value of Chiltelco. (This would be approximately \$92 million.)

While we have apparently made some progress with OPIC and are scheduled to meet with them again Monday in Washington, following their review with Brad Mills, President of OPIC, and the State Department, they still prefer to take the position that they will verbally assure us if we work out an agreement with the Chilean government that they would guarantee to continue the full coverage of the insurance. This is short of a guarantee, but as we are aware that they did eventually provide Bethlehem extended guarantees, we feel confident that this can be done. Regarding stipulating that we have been expropriated, they indicate they may prefer to file our claim so that it can take its normal course.

If we are successful next week in getting in writing the extended guarantees for for a period of 10 to 20 years on the \$92 million worth of paper, we then will be able to attempt to bring negotiations with the Chileans around to where we can again talk of book value and close the gap between the \$92 million and the \$153 million through cash payment at time of sale and ITT purchase of copper in the first two or three years for the balance.

We are still a long way from being able to sell this position to the Chileans, but it does give us an opportunity to attempt to seek recovery of more than the OPIC \$92 million coverage.

. When Allende signs the copper legislation and formally expropriates Anaconda and Kennecott, there must be increased international resentment against the government of Chile, and, as in the case of Peru, on their expropriation of I.P.C., we were able to capitalize on this and eventually arrived at a deal which allowed them to announce internationally that copper and I.P.C. were special cases and here is an arrangement we made in a reasonable negotiation with ITT. At this time it is impossible to commit that this will work, but it is clear that there is a possible opportunity and I think the door is cracked open a bit. It is my personal opinion

Mr. H. S. Geneen

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July 9, 1971

that this is going to take several months to accomplish which means that we must settle the rate situation in order to have an adequate cash flow to keep the Company operating. The snow storm of mid June impacted us about three-quarters of a million dollars, and the current earthquake will also cost Chiltelco a substantial, but undetermined, sum.

Enc. 2

cc: Messrs. Bennett, Dunleavy

. W. Guiltoyle



Latin America Telephone Operations Group

320 Park Avenue New York, N.Y. 10022 Tel. (212) 752-6000

To:

Mr. H.S. Geneen

Date: July 9, 1971

From

Mr. J.W.Guilfoyle
J.M.Stimson

Subject:

Supplemental Board Note - Chile

A killer earthquake hit the central part of Chile last night at 11:04 PM. Several people were killed and scores injured in Valparaiso principally as a result of panic attempting to vacate theatres, etc. The roof of the Cathedral in Valparaiso collapsed indicating the strength of the quake.

A sizable crack in our Valparaiso building is currently being investigated. Holmes indicated this morning that in his opinion, this was the strongest quake since 1965.

Holmes reports that the glass doors in his and adjacent offices in the San Martin building shattered during the quake but no other structural damage to telephone buildings has been reported in Santiago.

A check with Anaconda here in New York confirms communications blackout in Aconcagua Valley as they have not been able to contact their installations by radio.

With the exception of ten small towns isolated in the Aconcagua Valley, CTC suffered little damage and communications appear normal throughout Chile.

JMS/ml

POUNTS ... Composition are

TO

: Hendrix ITTHQNY

: Berrellez ITTLABA

DATE

: July 21, 1971.

SUBJECT: Chilean situationer

The two most significant developments of the past week in Chile were the defeat of the leftist government coalition in a senate seat election and the rejection by the Comptroller General's office, on the grounds of illegality, of a government decree to regulation the textile industry.

The government is proceeding slowly to implement a constitutional amendment, ratified July 11 by the congress, permitting the nationalization of the copper industry.

Although the New York Times reported on Friday, July 16, that the First National City Bank of New York was among two major foreign banks negotiating sale of their operations with the Allende government, we have been told reliably that FNCB last week decided not to sell out. We'll check this out today. The government has taken over, through stock purchases and other negotiated moves, some 60 per cent of the private banking operations in Chile.

ELECTIONS

1. The voting was for a vacant senate seat representing the Province of Valparaiso where President Allende was born and where, ironically, his perennial opposition, the Christian Democrats are strongest.

For this particular test, the Christian Democrats and the National Party, which together control Congress, set anide ideological

differences and backed one candidate who won by 141.450 votes (50.16 per cent of the votes cast) to 136,831 votes (48.51 per cent) over the government coalition candidate.

- 2. In the recent municipal elections, the opposition defeated the government coalition by nearly an identical edge. What analysts are reading into this is a sign that the government coalition's popularity has peaked, at least in the second most important province in the country.
- 3. It had been expected that with the official vote proselyting machinery at its disposal and the calamitous conditions provoked by an earthquake that seriously damaged Valparaiso (votes help expedite official aid), the government coalition would win.
- k. Ex-President Frei and other Christian Democrats halled the victory as fresh evidence that Chilcans desire reform, but in an orderly, democratic manner. President Allende huddled with his closest advisers to weigh the causes and effects of the results. He recognized the defeat but said it would not alter his government program.

TEXTILE INDUSTRY

- 1. The major textile firms were intervened by the government some time ago on grounds of production decline and cornering of supplies with speculative objectives. The Textile Institute and industrialists refuted the official allegations and appealed to the courts of justice.
- 2. The government announced it was willing to discuss purchase of the industry from the owners but hald it would not take the initiative in this direction. The textilers pressed their appeal and declined to sell out. Meantime, the government moved from intervention to requisition,

or the seizure of supplies and property to satisfy whatever indemnities resulted from the intervention. However, on Tuesday, July
20, the Comptroller General's office declared the intervention decree
illegal on the grounds the government had not proved there had been
either a decline in production or a deliberate control of goods. The
Comptroller General claims his decision is binding on the government.
The government, however, has offered new evidence to back up its
claims. This is where the case stands now.

COPPER

- 1. We are informed President Allende, despite opposition within his own cabinet, will move cautiously toward nationalization of U.S. copper holdings in order to avoid a confrontation with Washington over AID guarantees. Allende wants to do nothing that could hurt his international credit. This point has been debated in the Economic Commission composed of the ministers of Economy, Finance, Agriculture and the chiefs of the government coalition's political parties.
- 2. We are told that exponents of quick nationalization regardless of the consequences are the Minister of Economy, Pedro Vuskovic, his N° 2 man Oscar Garreton, and the chiefs of the Socialist Party and MAPU, the leftist radical faction that splintered away from the Christian Demograts.
- 3. Sources close to the industry tell us that production is not moving as smoothly as the government claims. Because of an exodus of Chilean copper mine technicians and other production problems, 1971 output is estimated at some 600,000 metric tons compared with 838,500 in 1970.

Production cost per pound is estimated at 42 U.S. cents. Production for the January-May 1971 period is estimated unofficially (no official figures are yet available) at 208.234 tons compared with 208.586 in the same 1970 period when 27 strikes and work stoppages slowed output.

4. Another problem: mine workers are claiming that when the government does take over the copper industry they will be entitled to severence pay and all other frings benefits (estimated at some US\$ 70 millions) from their current employers, the mixed privatestate entitles, which would coase to exist.

AUTOMOTIVE

- 1. The paralyzation of Ford Motor Company has created a crisis in the entire automotive Mustry. The government plan to Mmit the industry to three or four auto firms by the end of 1972 has caused the major assembly firms to curb investments. According to figures released by the Automotive Commission of CORFO, production in the first three months of 1971 was 40 per cent below the same 1970 period.
- 2. One result: speculation in old cars and the few new ones available in sales rooms, hoosting prices from 20 to 30 per cent above official prices. The crisis threatens Chilean auto parts manufacturers, an industry comprising 300 plants, some line thousand workers and six thousand technicians and white collar employees.

 OTHER:

Worsening meat and chicken chortages caused the government to extend the beef bans to three weeks and to import 800 tons of

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frozen chicken from France and Brazil. The shortages are blamed on the recent snowstorms and earthquike.

From the Miami Herald (July 20 -- see attached): The Nixon administration plans deterrent action against Latin American expropriations of U.S. properties without proper compensation. Policy is to block international loans for nations taking U.S.-owned property without adequate compensation.

co:	Mr.	Gerrity,	ITTHQNY	Gullfoyle,	CHILTELCO
		Wallace,	11	Goldman,	II.
	14.00	Perkins,		Holmes,	,, <u> </u>
		Dunnett,	tr .	Stimson,	tt .

PERSONAL AND

Mr. W.R. Merriam

CONFIDENTIAL

August 4, 1971

E. J. Gerrity

Bill:

I think it is important that we continue our contacts with the State Department, with members of Congress—some of whom perhaps we should see even while they are in recess and at home—and the press.

I would be intorested in what steps the State Department intends to take to inform Mr. Garreton of the requirements.

Also, please let us know what the facts are concerning the possible loans to Chile. It is my-understanding that Chile is asking IADB to permit it to use unexpended funds from loans already made for highway work and for water works repairs.

I suggest that you carefully review with your staff Goldman's report in his memorandum of July 30th.

cc: Messrs, K.M. Perkins D.H. Kiernan E.R. Wallace

Hours war

CM

Washington Office

1707 L Street, N.W. Washington, D.C. 20036 Tel. (202) 296-6000

To: Mr. W. R. Merriam

Date: August 6, 1971

From: J. D. Neal

Subject: Chile - Effort to Obtain Foreign Loans

3

I talked at length today with responsible officials at Treasury, the State Department, and the Inter American Development Bank regarding Chile's desire and/or efforts to obtain international financing. In summary, I was told the following:

- 1. No new loans to Chile are being considered, and no pending loans are being activated. (This includes World Bank, IMF and Inter-American Development Bank).
- 2. The only possible action regarding Chilean loans is in the IADB whose President, Ortiz-Mena, just returned from Santiago. White there, the Chileans asked for money, using as an excuse the recent earthquake which killed less than 100 persons but which did a bit of small-scale damage.

Ortiz-Mena, upon return to Washington, reported to his IADB board that Chile requested him to "restructure some of the existing loans in order that money could be made available for immediate earthquake needs" (housing, water and roads).

Ortiz-Mena reported his only commitment to Chile is that after the government presents the IADB with a plan for the above request, the Bank will "look at it." As yet there has been no action.

3. I was informed that while Chile is trying to find any way to obtain funds, there is "no possibility" of the international banks making new loans. Chile knows the rules of the game; so unless the situation there deteriorates further and further, the government is not going to expose itself to the banks with a direct confrontation. The State Department says it has expressed concern to Chile by pointing out that unless expropriations are

justly compensated, Chile's credit standing and its regular sources of financing will be jeopardized. (This is the second time in the past few days the State Department — at different levels — has told me Chile has been warned,)

Both State and Treasury feel that Chile would have difficulty in meeting IMF terms and conditions for a loan.

Translated by 1TT Translation Division August, 18, 1971

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RECEIVED BY ITT TRANSLATIC: DIVISION AUGUST 10 AT 3:45 PM

SYSTEM CONFIDENTIAL

ITT COMMUNICATIONS 1158-S/H

QUOTE

CLARIN 7 AUGUST 1971

TTT ACCUSED OF SABOTAGE

PRESIDENT ALLENDE WILL RECEIVE MONDAY A COMPLAINT FROM THE WORKERS.

OF THE TELEPHONE COMPANY REGARDING THE SABOTAGE POLICY BEING USED BY

ITT IN CHILE, AGAINST THE INTERESTS OF THE PROPLE.

THE LEADERS HEADED BY HECTOR ORELLANA, PRESIDENT OF THE SANTIAGO WORKERS UNION WAS TRYING TO ARRANGE YESTERDAY FOR A MEETING WITH THE HATTON'S CHIEF EXECUTIVE AND IT WAS CRELLANA HIMSELF WHO ADVANCED THE INTORNATION WITHOUT CIVING ANY DETAILS AS YET. THE WHOLE SITUATION STEMS FROM THE MATICHALIZATION PROJECT SPONSORED BY THE POPULAR GOVERNMENT IN ACCORDANCE WITH ITS PROGRAM. THE LEADERS HAD ALREADY DESCURCED THE MANEUVERS OF THE ITT EXECUTIVES IN THE UNITED STATES "TO DELAY THE MEASURES FOR TRANSFERRING THE NORTH AMERICAN INTEREST IN THE TELEPHONE COMPANY". ALL THIS MANEUVERS WERE EXPOSED AT WORKER MEETINGS BY OSCAR GARRETON HIMSELF, ASSISTANT SECRETARY OF ECONOMY AND CHAIRMAN OF THE COMMISSION NEGOTIATING WITH THE "GRINGO" REPRESENTATIVES WHO ASKED, FOR A "PAUSE" OF ONE WEEK, WHICH IS BEING LENGTHENED INTO MONTHS. System Confidential Unquote

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QUOTE".

QUOTE

PURO CHILE - 11 AUGUST 1971 NATIONALIZATION WILL GO ON

THEY WILL MAKE CTCH TALK CHILEAN

REGARDING CONVERSATION THE GOVERNMENT KEEPS TRYING TO HAVE THE TELEPHONE COMPANY SPEAK IN CHILEAN, THE CTCH, WHICH IS CHILEAN ONLY IN NAME, SINCE IT BELONGS TO THE INTERNATIONAL TELEPHONE AND TELECRAPH CORPORATION, ITT, A HORTH AMERICAN INTERNATIONAL CONSORTIUM, HAS ONLY ADMITTED DURING THE PAST FEW YEARS THAT 30% OF ITS CAPITAL BELONGED TO THE STATE. WHAT IT IS BEING TRIED NOW IS TO HAVE SAID CAPITAL BELONG 100% TO THE STATE. THIS IS THE REASON FOR THE MANY TALKS WITH THE CRINCOS.

THERE IS A CONSITTEE MADE UP C. REPRESENTATIVES OF ENTEL, CORFO SERVICIOS ELECTRICOS WHICH IS TAKING STEPS FOR THE NATIONALIZATION OF THE COMPANY BEFORE REPRESENTATIVES OF ITT, NOW IN SANTIAGO. ASSISTANT SECRETARY OF ECONOMY OSCAR GARRETON PRESIDES OVER THE COMMITTEE.

GARRETON DISCLOSED YESTERDAY THAT THE COMMITTEE MET WITH PRESIDENT ALLENDE AT LA MONEDA AND HAD HEARD A COMPLETE REPORT ON THE STATUS OF THIS NECOTIATION UNQUOTE PART TWO OF THREE PARTS

EL SIGLO - 11 AUGUST 1971 - ITT ACCUSED OF SABOTAGE BY WORKERS THE LEADERS OF THE MORKERS UNION OF THE SANTIAGO TELEPHONE COMPANY. ASKED FOR AN INTERVIEW WITH THE PRESIDENT OF THE REPUBLIC "TO DENOUNCE TO HIM THE POLICY OF SABOTAGE BY THE COUPANY IN CHILE AGAINST THE INTERESTS OF THE COUNTRY".

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"THIS SITUATION, THEY STATED, STEES FROM THE PROJECT TO NATIONALIZE THE COMPANY, AND THIS INITIATIVE IS BEING HINDERED BY DELAYING ACTION ON THE PART OF THE UNITED STATES OF NORTH AMERICA". UNQUOTE

System Confidential

System Confidential

CUOTE !

LA MACICH AUGUST 11, 1971

MATICALITATION OF THE COMPANIA DR TELEFONOS DISCUSSED BY ECONOMIC COMMON MEETIND PRESIDED BY OTHER OF STATE

THE STATUS OF DISCUSSIONS BUTWLEN THE PROPLETS GOVERNMENT AND THE COMPUSED DE TENEFONCS WAS THE MAIN SUBJECT AT THE MEETING OF THE FOOND TO COUNTIES. ON HOMBAY, THIS MINISTERIAL WORK GROUP HEIFIDED OVER BY THE CHIEF EXECUTIVE AWALYZED THE ESSENTIAL ASPECTS OF THE RUCCUSSINUCTION PROGRAMS.

YESTERDAY'S SESSIGN TOOK MAGE IN THE COUNCIL EOCH OF THE PRESIDENCY OF THE PEPPUBLIC AND WAS KYADED BY THE CHIEF OF STATE. ALSO TAKING PART WERE THE MINISTERS OF FURINGE, FOUNDAY, AND MUNICO, THE PRESIDENT OF THE CENTRAL BANK AND THE UNDERSCORDANTES OF FOUNDATOR OF FOUNDATOR, THE DIRECTOR OF ODERAND, OCCARAL PARTHER, AND THE COCRDINATOR OF FOUNDATOR AND ISS, JORGE ARRATE.

THE PHILITER OF MANING, AT THE END OF THE COUNCIL PARTIMO INDICATED THAT DR. ALLENDE WAD EDEN INFORMED OF THE ENTITY OF DISCUSSIONS DETWEEN REPRESENTATIVES OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL BEARTHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL SHARPHOLDERS OF THE COUNCIL PARTHER STATE, ONE OF THE PRINCIPAL STATES, ONE OF THE PRINCIPAL STATES.

MISCURSICUS MURE INTILATED TO MEGOTIATE THE TALISFER OF THE SPARE OF THE STOCK
THAT IS IN THE POSSEGUCY OF SAID INTERNATIONAL COMMORTHM. (ITT) OF COMMUNICATION
FIRES, AND TO ACHIEVE ITS NATIONALISATION.

UNCUCTE

CUCTE

CLARIN, AUGUST 11, 1971

THE TRESPECTE SYSTEM. THE STATUS OF DISCUSSIONS ESTIMAND THE GOVERNMENT AND
THE HEADS OF THE COMPANIA DE TELEFONCE DE CHILE COMPANIO THE NATIONALIZATION
OF THE LANTIN WERE AVAILATED MESTERIAM BY THE MODIFIED CONTRIBE PREFIDED OVER
BY THE PRISIDENT OF THE REPUBLIC.

IN THE HOURS HAVE BEEN HEALTH WERE THE PROJETERS OF SOCIONA, FINANCE AND MARIED.

System Confidential

THE THIS IDENT OF THE CENTRAL BANK, THE DIRECTOR OF CONTANT, THE UNDERSONATIONS OF AGRICULTURE AND ECCHOLY AND CTHER RIGH CRETCALS. THE "MILADO" CANTURIAS CARR OUT TO SAY THAT THE DISCUSSIONS COULD NOT BE GOING BETTER. HE SAID THAT A GREAT FORTION OF THE SHAPES OF THE COMPARIA DE TELEFONICE ARE IN THE WARDS OF THE INTERNATIONAL TELEFONIE AND TELEGRAPH CORPORATION. NATURALLY, THE GOVERNMENT BANTS TO BUT THESE SHAPES IN ORDER TO BUALLYS THE NATIONALIZATION.

UNQUETE

QUCTE

IA TERCERA, AUGUST 11, 1971

ARE GOING TO BUT THE SPREAMS OF THE TELEPHONE COMPANY
THE ECCHOLIC CONFLITTEE OF THE GOVERNMENT PERTURAL HEARD A DETAILED REPORT
ON THE PROGRESS OF THE EDOCTLIVIOUS BELIXO CARRIED ON BY A CONFISSION IN CADER
TO ACCOMPLIEN THE PATICIALIZATION OF THE COMPANIA DE THE FONCE OF CHILE.
THE UNDERSCRIPTARY OF ECCHOLIC, CHOR GARRETON, SAID THAT THE GOVERNMENT MAS BEEN
HEDOCTLITING WITH ITT THE TRANSFER OF TO PROGRET OF THE STOCK OF THE AFORMALD
COMPANIA, BETHEN THAT CORFO, AT PRESENT, HOLES CHILL 30 PRECIPIT OF THE STOCK.

CARRETON SAID THAT THE EMOCSTATING COMPASSION WAS MADE UP OF CYPICIALS
OF THE REPRESA MACICIAL DE TELECOMUNICACIONES, OF CORPO, OF THE FLECTRIC POWER
SERVICES AND THE ASSED PORCES.

UNQUOTE

CUCTE

EL 81010, AUGUST 11, 1971

RECCTIATIONS WITH ITT

ITT, A U.S. CCRPCRITION, IS THE MICRITY STATEMENT OF ECCHONI, CSCAR GARRITON,
ACCORDING TO THE UNDERSECRETARY FOR THE MINISTRY OF ECCHONI, CSCAR GARRITON,
AND AN ECCHOLIC COUNTYPE HAS BEEN MINISTRY OF FULL REPORT ON THE PROGRESS OF
MEGOTIFICIENT OF MATICIPALIZE THE COMPANIA OF TELEFORMS.

UNQUETE

System Confidential

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System Confidential

OUCTE

IA TRIBUCA . AUGUST 13. 1971

ELECTICES OUT "UP" LIES AT THE TELEPHOLE COLPANY

NATIONAL COUNCILLAR EDURADO ERRARURIZ PRESENTED A STATEMENT CONVENTINO CYCLEE REGRETA EXPRESSED BY THE COMMUNIST DAILIES RIGHT AFTER THE DEPEAT OF THE "UNIDAD POPULAR" (POPULAR UNIT) OF UP) AS THE COMMUNIA DE TELEFONOS. THE "SIDLO" PAPER ELAMED HER FOR MAYING CROWNIZED A CAMPAIGN DESIGNED TO PREVENT NATIONALIZATION OF THE COMMUNIX AND THAT RESULTED IN THE MARXIST DEFFAT AT THE ELECTIONS WILD BY THE THERRORE OFFRATES.

NOT COLY THERE DID THEY LOSE, SAID ERRASURIS, BUT ALSO IN THE ELECTICUS OF THE PLANT EMPLOYEES, THEM IN ALL THE PROVINCES, AND FINALLY, WITH THE SUBJRYISCES.

THESE ILECTICES, HE ADDED, PROVED THAT THE PARTIES WERE POSSIBLE JUST A SPAIL GROUP THAT CLAIMED TO SE LEADING ALL THE WERKERS, WHO ARE RAPIDLY LIBERTING THRESTLYIS OF THE TUTELAGE.

UNCUCTÉ

ORIGINAL TO HR GUILFOYLE COPIES TO HR STINSON MR GOLDMAN

Holyes

System Confidential

MY TATIS ASSOCIATED

AIDEL	DUSLEAVY.	GERAITY	AUSYCH	MC CABE	. SCHAFFER	
BEHKETT	BOCKER	MANILTON	KHORTZ	LIBS NEILL	VALERTE	_
COCKIOA	OUNCEN	HANYAÝ	KELLER, J.K.	PERRY	WEADOCK	
	. BRITTERHAN	GUILFOYLE	. MC HITT	PIERSON		

atoup:

RECEIVED 5:35PH J (1) AUGUST 23, 1171 .6968/H

REPUBLICA DE CHILE HIHIETERIO DE ACOLCUTA SUBSECRITARIA DE COMERCIO E INDUSTRIAS GABIRITE DEL SUBSUCAETARIO

> SANTIAGO, CHILE AUGUST 19, 1971

MR. JOHN W GUILFOYLE, PRESIDENT ITT SUD AFERICA SANTIAGO

DEAR MR. PRESIDENT OF ITT SUD AMERICA:

JUST AS I MENTIONED TO YOU DURING OUR LAST CONVERSATION, THE GOVERNMENT'S ECONOMIC COMMITTEE TOOK NOTICE AND DISCUSSED THE STATUS OF THE NEGOTIATION FOR THE TRANSFER OF COMPAÑIA DE TELEFONOS DE CHILE TO THE CHILEAN STATE.

THE GOVERNMENT'S ECONOMIC CONMITTER RECEIVED DETAILED INFORMATION REGARDING BOTH THE WRITTEN DOCUMENTS AS WELL AS THE VERBAL PROPOSALS MADE BY YOU, PARTICULARLY THE ONE ABOUT TERM AND INTEREST MENTICHED IN OUR LAST MEETING.

IN ADDITION, THE ECONOMIC COMMITTEE TOOK NOTE OF A REPORT ON THE TALKS OF GOVERNMENT OFFICIALS AND PERSONNEL OF THE TELEPHONE COMPANY, IN CONNECTION WITH THE TECHNICAL AND FINANCIAL SITUATION OF THE COMPANY.

IT IS INTERESTING TO POINT OUT THE COINCIDENCE BETWEEN THE CONCLUSIONS KENTIONED IN THE REPORT IN QUESTION AND THE PUBLIC DECLARATIONS MADE BY THE TECHNICAL PLRSONNEL OF THE TELEPHONE COMPANY ON AUGUST 19TH. BOTH DOCUMENTS CORROBORATE OUR PREOCUPATION IN THE SENSE THAT THE TELEPHONE SERVICE RENDERED BY THE COMPANY

IS NOT ONLY ANTIQUATED AND IMEFFICIENT, BUT ALSO THAT IT IS UNBERGOING INCREASING DETERIORATION.

THESE FACTS LED US TO PROPOSE, AS A WAY OUT OF OUR IMPASSE IN OUR FIRST CYCLE OF CONVERSATIONS, THE INTERNATIONAL RATE SYSTEM MORKED OUT BY A COMMITTEE OF EXPERTS BELONGING TO THE TELECOMMUNICATION.

ADMINISTRATIONS OF TWO EUROPEAN COUNTRIES WHICH ARE MEMBERS OF THE INTERNATIONAL COMMUNICATIONS UNION (ITU). BUT THIS, TOGETHER WITH AN IMMEDIATE TRANSFER OF THE ADMINISTRATION MO THE STATE.

MOREOVER, FOR THE PURPOSE OF FORESTALLING OBJECTIONS ON YOUR PART IN THE SENSE THAT DELIVERY OF THE ADMINISTRATION PRIOR TO THE PURCHASE-SALES CONTRACT IS NOT USUAL, WE PROPOSED A QUICK SIGNING OF THIS CONTRACT, WHERE THE AMOUNT TO BE PAID WOULD BE DETERMINED BY THE RATES, THE TERMS AND THE INTEREST THAT WOULD BE SPECIFIED IN THE CONTRACT AND THAT THE ADMINISTRATION WOULD BE AUTOMATICALLY TRANSFERRED TO THE STATE UPON SIGNING IT.

UNFORTUNATELY, AND REGARDLESS OF THE CORDIAL AMBIENT IN WHICH /IT WAS NOT POSSIBLE TO REACH AN AGREEMENT./
THE CONVERSATIONS WERE CARRIED OUT/ THUS, THE TRANSFER OF THE COMPANY
AS WELL AS THE MANAGEMENT OF THE SAME, WHICH IS A DEEP SOURCE OF
PREOCUPATION TO US, REMAIN WITHOUT SOLUTION FOR THE TIME BEING.

DESPITE THE IMPOSSIBILITY, UP TO NOW, OF ARRIVING TO AN AGREFMENT //IS CONFIDENT/
SATISFACTORY TO BOTH PARTIES, THE GOVERNMENT OF CHILE/THAT THE NEW
TALKS WITH ITT ON THE BASIS OF OUR PROPOSAL OR ANY OTHER PROPOSAL
THAT MIGHT BE SUGGESTED WHILE SAID TALKS ARE IN PROGRESS, WILL ENABLE
US TO FIND A QUICK SOLUTION TO OUR DIFFERENCES.

HOWEVER, I MUST INFORM YOU THAT THE ECONOMIC COMMITTEE, HEADED BY THE NATION'S CHIEF EXECUTIVE HIMSELF, VOICED ITS CONCERN ABOUT CERTAIN POINTS ARISING DURING OUR CONVERSATIONS OR STEERING FACH THE DOCUMENTS DELIVERED BY ITT/ THAT WE KNOW CENTAIN PARTICULARS ON FACTS THAT WERE EXPRESSED ON IMPLIED IN THE CONVERSATIONS. THEREFORE, THE COVERNMENT'S ECONOMIC CONMITTEE CONSIDERS THAT BEFORE MAY CONVERSATIONS, WE MUST KNOW AND STUDY THE FULL WORDING AND DOCUMENTS CONSTITUTING THE INSURANCE CONTRACT BETWEEN ITT AND OPIC REGARDING ITT'S INVESTMENTS IN CHILDLECO.

SECONDLY, WE ARE SURPRISED AT THE REPERCENCE TO RATES ON PAGE

3. PARAGRAPH 3. OF YOUR LETTER TO MINISTER OF THE INTERIOR JOSE TOHA.

THE GOVERNMENT OF CHILE HAS HEVER DERIED THE POSSIBILITY OF DISCUSSING THE COMPANY'S RATES AND THIS HAS BEEN STATED TO YOU ON SEVERAL OCCASIONS. MORE THAN THAT, WE ARE SURPRISED AT THE TALK OF AN EVENTUAL "CONFISCATION" OF THE COMPANY'S ASSETS, REGARDING THE PROBLEM OF RATES, WHEN IN THE PRESENT RATE SITUATION THE GOVERNMENT IS OPERATING WITHIN CHILEAN LAW AND PARTICULARLY IN ACCORDANCE WITH THE LEGAL STANDARDS STIPULATED IN THIS RESPECT IN THE CONCESSION CONTRACT.

THE GOVERNMENT OF CHILE HOPES THAT OUR CONVERSATIONS IN THE FUTURE WILL COME TO A QUICK AND HAPPY ENDING TO THE SATISFACTION OF EXTH PARTIES.

. WE SHALL LOOK FORWARD TO HEARING FROM YOU.

SINCERELY YOURS, ...

OSCAR G. GARRETON P. SUBSECRETARIO DE ECCNOMIA FOMENTO AND RECONSTRUCCION

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JMR/jmr			ORIGINAL T	•	MR GOLDMAN		
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Translated by ITT Translation Division 'August 23, 1971

SYSTEM COMPIDENTIAL ITT COCCUMICATIONS 1446-5/H AUGUST 20, 1971

QUOTE

EL MERCURIO - AUGUST 19, 1971

TO THE TELEPHONE WORKERS AND THE GENERAL PUBLIC.

BEING AWARE OF THE MANNER IN WHICH THE MANAGEMENT OF COMPAÑIA

DE TELEFONOS DE CHILE ADDRESSED ITSELF TO THE BOARD OF DIRECTORS ON
JUNE 23, 1971, INVOLVING THE COMPANY'S ENGINEERS WITH RESPECT TO THE
SELECTION OF AUTOMATIC SWITCHING EQUIPMENT NOW IN SERVICE, AND IN
VIEW OF THE SERICUSNESS WITH WHICH SAID IMPLICATIONS AFFECT THESE
PROFESSIONALS, THE PROFESSIONAL SINDICATE OF ENGINEERS AND
ENGINEERING GRADUATES OF COMPAÑIA DE TELEFONOS DE CHILE FEELS DUTYBOUND TO STRESS THE FOLLOWING:

- NO MEMBER OF THIS SINDICATE HAS EVER PARTICIPATED IN THE DECISIONS RECARDING THE ACQUISITION OF THE EQUIPMENT IN QUESTION.
- 2. THIS POLICY OF EXCLUDING THE ENGINEERS IN THE ADOPTION OF SUCH IMPORTANT DECISIONS AS THE ONE MENTIONED ABOVE HAS HISTORICALLY INCLUDED ALMOST ALL THE AREAS IN MICH ENGINEERS ACT OR SHOULD ACT. THIS FACT ASSUMES CREATER SERIOUSNESS IF IT IS TAKEN INTO CONSIDERATION THAT DUE TO ITS VERY NATURE THE OPERATION, OF THE TELEPHONE COMPANY IS ESSENTIALLY A TECHNICAL OPERATION.
- 3. AN ANALYSIS OF THE COPPANY'S EXISTING ORGANIZATION DISCLOSES
 THAT THE ACTUAL NUMBER OF EXCINEERS SERVING THE COMPANY AT PRESENT IS
 CLEARLY INSUFFICIENT. AS A PLAIN EXAMPLE OF THIS, IT MIGHT BE
 MENTIONED THAT NOT A SINGLE ENGINEER IS ENCAGED AT PRESENT IN HAMBLING
 THE COMPANY'S OPERATIONS IN AR AS DUTSIDE SANTIAGO (VALPARAISO,:
 CONCEPCION, ETC.).

- 4. AS A RESULT OF THE FOREGOING, WE, THE COMPANY ENGINEERS BELONGINGTO THIS SINDICATE FEEL THAT IT IS OUR DUTY TO CLEARLY ESTABLISH THAT
 THE PRESENT CONDITION OF THE COMPANY IS NOT OUR RESPONSIBILITY. WE
 MIGHT ADD THAT THE FEW ENGINEERS HOLDING HIGH-RESPONSIBILITY POSITIONS
 IN THE MANAGEMENT OF THE COMPANY HAVE SPARED NO EFFORTS TO INTRODUCE
 CHANGES THAT WILL RESULT IN GOOD SERVICE FOR THE SUBSCRIBERS, DESPITE
 THE WHOLLY REGATIVE AMBIENT IN WHICH THEY WORK.
- 5. THIS SINDICATE OFFERS ITS FULL COOPERATION IN ANY EFFORTS DIRECTED TO IMPROVE PRESENT CONDITIONS. HOWEVER, THE SINDICATE SERVES WARNING THAT ANY IMPROPER ACTION ON THE PART OF THE COMPANY BEFORE THE GOVERNMENT AND PUBLIC OPINION BY TRYING TO USE THESE INITIATIVES AS A CONSEQUENCE OF A DEFINITE POLICY BY THE PRESENT ADMINISTRATION WILL NOT BE ACCEPTED BY US.

ANY IMPROVEMENT ON THE DEPLOYABLE CONDITIONS OF THE EXISTING SERVICE
MUST BE ATTRIBUTTABLE ONLY TO THE EFFORTS OF THE ORGANIZED WORKERS
OF WHICH WE. THE ENGINEERS: REPRESENT ONLY A SMALL FRACTION.

BY THE PROFESSIONAL SINDICATE OF ENGINEERS AND ENGINEERING GRADUATES OF COMPANIA DE TELEPFONOS DE CHILE:

WALTER BANDA SZ SECRETARY JAIME TORO S

SANTIAGO, AUGUST 16, 1971

UNQUOTE

JMR/jmr

(3) LATIN AMERICAN TEL. AIBEL DUNLEAVY GERRITY RUNYON MC CARE SCHAFFER . BENNETT BORKER HAMILTON KNORTZ MC MEILL VALENTE COOKSON GENFIN HANKAY KELLER, J.H. PERRY WEADOCK BRITTENHAM GUILI OYLE UC NITT PIERSON CROSBY . KOLLMEYER STIUSON

1493/H AUGUST 20, 1971

TRANSLATION OF SPANISH-LANDWIGE PART OF-THIEX 1403/S H:

THE TELEPHORE COMPANY HAS ERGURN ITS COUNTY-LENT TO PROVIDE REFERENCE SERVICE THE MINISTRY OF THE INTERIOR MUSUED THE FULLOTHO STATEMENT: T'S TELEUROR COMPANY OF CHILE ORTHINED AND WAS GIVEN THE TELEUROR SERVICE CONCESSION UNDER AN AGREFICEIT ENTAILING THE BASIC STIPULATION THAT IT MUST GIVE THE PROPLE OF THE COUNTRY "HODERN AND EFFICIENT" SERVICE AS STATED IN THE RESPECTIVE CONTRACT. BY VIRTUE OF SAID CONCESSION CONTRACT, APPROVED BY LAW IN 1930, THAT COMPANY RECEIVED EXCEEDINGLY FAVORABLE FORMATIC COMBITTO'S FROM THE STATE, ENABLING IT TO COTAIN STABLE CURRENCY BENEFITS AND TO MAYE RECOURSE TO SPECIAL BENEFITS OR EXPLIPTIONS. BUT ALL THIS WAS BASED ON THE UNDERSTANDING TRAT THE COMMANY HAD TO COMPLY WITH THE OBLIGATION TO PROVIDE THE COUNTRY WITH VERY EFFICIENT SERVICE. THE COVERNMENT, SINCE IT ASSURED CONTROL. HAS BEEN CONCERNED HOW BEST TO SES TO IT THAT THE TELEPHONE COMPANY PULFILL ITS LEGAL OSLIGATIONS.. THUS AT THE BEGINNING OF THE YEAR ONE OF THE FISCAL DELXMATES ASKED THE EXECUTIVE EXARD TO HAVE THE RESPONSIBLE PARTIES AT THE COMPANY EXPLAIN THE REASONS FOR THE POOR ATTENTION GIVEN TO SUBSCRIBERS AND FOR THE UNACCEPTABLE PROCEDURES IT EXPLOYES AGAINST THEM AND HADE IT KNOWN FOR THE RECORD IN FORWAL PROTEST TRAT THE SUBSCRIBERS AND THE PUBLIC IN GENERAL ARE RECETVING DEPLORABLE SERVICE. END OF PART ONE OF TWO PARTS

PART TWO OF TWO PARTS

DOCDIATELY, THE TECHNICAL DEPARTMENTS OF THE SUPERINTENDENT OF ELECTRICAL POWER, CAS AND TELECOMOUNICATION SERVICES SUBJUTED REPORTS PROVING THAT THE SERVICES OF THE TELEPHONE COMPINY DO NOT MEST THE MINIMUM REQUIREMENTS UNDER THE INTERCATIONAL TECHNICAL STANDARDS THAT ARE THE APPLICABLE CRITERION IN THIS CASE. HORSEVER, IT DOCSMOT TAKE NUMBERS TO DESCRIPTIVE TO THE COUNTRY, BUICH IS SUFFERING THE CONSEQUENCES OF SUCH BAD SERVICE, THAT THE COMPANY IS NOT PROVIDING

THE EFFICIENT QUALITY SERVICE THAT IT HAD PROMISED. MINT IS CONFERT INDIED IS THAT THE CONOFESIONAIRE HAS VICIATED THE ECST INTONMENT OBLIGHTON TO WICH IY AGREED UNDER THE CONTRACT, AND IT SHOULD BE NOTED, HOLDOVER, THAT THE COVERNMENT IS COCHIZANT, AS THE RESULT OF A DERUNCIATORY REPORT BY ONE OF THE FISCAL DELEGATES, OF GRAVELY IRRIGULAR ACTS ON THE PART OF THE CHILLY. TELEPHICHE COMPANY, WHAT ARE TANTAHOULT TO OPEN VIOLATION OF THE CONTRACT BY SUBTERFUCES TENDING TO DIRECTLY ELUDE ITS OBLIGATIONS. SPECIFICALLY, IT CONCERNS THE FACT THAT THE TELEPHONE COMPANY OF CHILE HAS SEPARATED ITS PORTER DIRECTORIES DEPARTMENT, DELIVERING CYCH ALL FUNCTIONS HITHERTO PERPORTED BY THIS DEPARTMENT. AND IN PARTICULAR THE CONTRACTING FOR ADS IN THE TELEPHONE DIRECTORIES, TO A FICTITICUS CORPORATION CALLED "GUIAS Y PUBLICIDAD DE CHILE" CROANIZED AND DESIGNATED BY A FOREIGN SUBSIDIARY OF ITS REAL MASTER. WITH THIS ACTION THE COMPANY IS ATTRIPTING TO PREVENT THE STATE OF CHILE WHICH HAS AUTHORITY UNDER LAW TO INTERVENE IN AND SUPERVISE THE COMPANY'S ACTIVITIES. FROM CONTROLLING OPERATIONS AND VERY SUBSTANTIAL PROFITS COLLECTED THROUGH THE FICTITIOUS COMPANY. THE OCVFRIMENT, CONSCIOUS OF ITS DUTY TO ENSURE EFFICIENT SERVICE FOR THE COUNTRY, HAS FOR SOME TIME TRIED TO REACH AN AGREEMENT WITH THE COMPANY ON THE LATTER'S ACQUISITION. IT HAS NOT BEEN POSSIBLE TO ACHTEVE SUCH AN AGREEMENT. UNDER THESE CIRCUMSTANCES, THE COOPANY HAS SURVITTED A REQUEST TO HAVE THE RATES CURRENTLY IN EFFECT RAISED 53.44 FOR EVERY LINE OF SERVICE IT RENDERS. BY MYANS OF THIS EXCEPTANT PLAISE IT CLAIMS, ON THE BASIS OF CALCULATIONS THAT THE OCVERNMENT REJECTS, TO BE ABLE TO ACHIEVE A MET PROPIT OF 10 \$ ON ITS INVESTMENTS, ALTHOUGH IT HAS NOT COMPLETED THE CHES IT SAYS IT DID. THE APPLICATION WAS REJECTED BY THE FISCAL DELEMATES ON THE DOARD AND THE COMPANY HAS INSISTED THAT IT WILL GO THROUGH ALL THE PROCEEDINGS TO ENABLE IT TO ORT THIS EXCESSIVE RATE HIKE. THE COVERHEENT WILL TAKE ALL INCESSARY MEASURES TO PREVENT A COMPANY THAT HAS .

BEST COPY AVAILABLE

VICIATED ITS HOST BASIC COMMITMENTS, THAT IS RESPONSIBLE FOR IRREGULARITIES THAT

WILL BE FULLY DESCRIPTION AT THE APPROPRIATE THE, AND WHAT RECVIDES A SERVICE THAT AMOUNTS TO TRULY A MATICIPAL COARRAL, FROM MAKING A MCCKERY OF THE OFFICEATIONS IT WAS COMMINGSTED WITH THE STATE AND WITH ALL OF ITS CITIZENS.

MINISTRY OF THE INTERIOR

SANTIAGO, AUGUST 19, 1971

UNQUOTE

FERNANDO EQUIGUREN IS PREPLARINO A SHORT REPLY VAICH WILL BE DISCUSSED WITH ERNESTO BARROS AND EULOGIO PEREZ COTAFOS.

HOLLIES

ORIGINAL TO

MR GOLDMAN MR GUILFOYLE MR STIMSON AUG 2 6 1971

August 24, 1971

F. J. DUNLEAVY

MEMORANDUM TO:

Mr. F. J. Dunleavy

SUBJECT:

CHILTELCO STATUS REPORT

Following is the current status of the situation in Chile:

1. Rates

At a Special CTC Board Meeting on August 19. Holmes requested a vote of the Board approving the rates as requested in their January meeting. The Board approved the resolution as presented by a vote of 11 to 3 (the three dissenters were the Fiscal Directors). During the course of the discussion regarding the resolution, the Corfo representative on the Board, Mr. Jara, pointed out that Corfo had provided \$39 million for the Expansion Program, either through financing of imported equipment or direct loans, and had not been receiving the 2 per cent that they were entitled to as a return on the rate base. He further concurred with Holmes' observation that full compliance with the 2 per cent return allowed would have provided for additional installation of approximately 40,000 lines.

The Fiscal Directors, in voting against the resolution votoed the rate increase and stated that this was a hostile act, that at no time had the Chilean government refused the rate increase and that Servicios Electricos have the matter under review. They further went on to state that since the 1970 year-end balance sheet had not been approved, the Telephone Company could not expect a 1971 rate increase to be approved. They stated that prior to approved of the 1970 balance sheet they must study the net investments made during the year and all details of the balance sheet. Navoa again began to attack the quality of service, stating that the equipment being imported and installed was obsolete and not of the latest state of the art. He further stated that in forming Guias (World Directories) that we had formed a fictitious company for the purpose of siphoning off profits to ITT from the Telephone Company and its shareholders.

Management representatives rebutted all of the comments above, pointing out there is no requirement for the prior year's balance sheet to be approved before a rate increase is submitted and approved. It was emphasized we are entitled to a 10 per cent return, plus 2 per cent for Corfo. It was further stated that approval of the rate increase effective immediately would only provide for approximately a 5 per cent income for the year which is allowable under the contract.

As per the Concession Contract a petition formally requesting approval of the rates, is being filed with the Minister of Finance today.

Mr. F. I. Dunleavy

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August 24, 1971

Unfortunately, the Concession Contract does not have any time limit in which the Minister can act, hence we can anticipate further delays.

Following the Board Meeting the Deputy Minister of Interior, obviously acting in conjunction with the Fiscal Delegates, issued a declaration to the press strongly criticizing the Telephone Company for its actions regarding rates. A copy of the declaration is attached. (Attachment 1)

A reply has been prepared and is being released immediately to the press presenting the Company's point of view.

2. Cash Flow

Chiltelco's cash continues to be in an extremely difficult position. Last week a woman representative of the Federal Tax Bureau visited Bennie Holmes and requested payment of the taxes overdue and payable since March. This amounts to approximately \$2.2 million. Bennie Holmes is continuing to attempt to delay any payment of taxes and again emphasized to her that due to lack of government approval of the rate increase he is unable to make tax payments but is making every effort to make tax payments through the collection or pledging of government receivables. Our total taxes due are approximately \$58 million escudos, with present government receivables about \$37 million escudos. Bennie is continuing to use daily cash collections at all commercial offices and delaying payments to suppliers, vendors, Entel and CSESAC to meet minimum cash needs. As previously reported, we have a continuing scheduled reduction of all subcontractors who are either working on outside plant or repair of earthquake or storm damages. Reductions are at the rate of 20 to 30 people per week and is geared to minimize any possible union and/or government repercussions.

3. Press Activities

During the past two weeks there has been an increase in tempo of attacks on the Telephone Company and ITT, all of which have been well coordinated between the syndicates and government representatives. Last week Oscar Garreton, head of the government commission, accused ITT of delaying the nationalization of the Telephone Company. He advised the press that the government had offered to enter into an immediate sales contract, establishing a price of the company through appraisal with the terms of payment included in the contract. He stated that ITT adamantly refused to turn over management of the Company to the government during the appraisal period. He further went on to state that the Economic Council, chaired by President Allende, had met and discussed the nationalization of the Telephone Company and he, as chairman of the commission, was authorized to again proceed with negotiations. Following our last meeting Garreton was to return to the Economic Council for instructions and we can anticipate a letter from him regarding the next round of discussions.

In the meantime the union syndicates are continuing to issue statements to the newspapers criticizing the Company's management and the "Yankee imperialists" and the "gringes" of ITT for not turning the Company over to the government and the unions. The latest press release, criticizing Pentaconta, was issued by the engineers' union and a copy is attached. (Attachment 2) We do not plan, at this time, to issue any rebuttals but will take up the publicity during our next meetings in Santiago. Mr. F. J. Dunleavy

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August 24, 1971

4. Corfo

Chiltelco and CSESAC have both received letters from Cc. fo requesting meetings to determine the status of the 1967 Convenio and to discuss the following agenda items:

- (a) Status of expansion and forecasts for 1971 and 1972;
- (b) Possible expansions in 1973;
- (c) Production programs in the factory and its capacity;
- (d) Assembly and installation commitments by CSESAC;
- (e) Current operations status of CSESAC.

These meetings are scheduled to be held sometime during the week of August 23. The Chiltelco meeting, with Bennie Holmes present, will be held first to determine what is behind Corfo's request, and then following discussions between Holmes and Gillen, he and CSESAC representatives will meet with Corfo.

Corfo's representatives are well aware that we have stopped the Expansion Program as we previously had obtained approval for postponing 20,000 lines which was voted on and approved by the Corfo Fiscal Delegate at a Chiltelco Board Meeting. Further, at several recent Chiltelco Board Meetings, in the presence of the Corfo Director, Bennie Holmes has stated that the Expansion Program has been severely impacted due to lack of rate increase and cash shortfall. At the present time Corfo also have received approximately 40,000 lines of switching equipment to their account from SESA, Madrid and CGCT. All of this is in storage and will not be installed during 1971 or until the rate increase provides the cash needed for the program.

Bennie Holmes, approximately two weeks ago in a meeting with the Minister of Interior Toha regarding the rate increase, discussed with the Minister the curtailment of the Expansion Program. Toha indicated he would see if Corfo could arrange financing to allow Chiltelco to start up the Program again. Due to the earthquake and the recent severe snow storm, Chiltelco have applied for Corfo assistance in obtaining financing and have held a series of discussions with Corfo requesting guarantees from Corfo to obtain local financing to meet the expenses caused by the storm and the earthquake and an additional loan to finance the Expansion Program. This financing could help partially to reduce the foreign bank debt. While it is possible that these could be the reasons for Corfo's interest in our 1971-1972 and future programs, it is more probable that this is just another avenue of continuing to tighten the noose on ITT to force us to turn over management of Chiltelco.

5. World Communications - Chile

On Monday, August 23, the Worldcom employees went on a sitdown strike when Worldcom refused to pay them a bonus for working extra hours during the recent earthquake.

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Mf. F. J. Dunleavy

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August 24, 1971

In spite of the fact that they were paid overtime. Transradio did grant what amounts to a two months bonus for the extra effort during the earthquake period. Worldcom have refused and as of Tuesday, August 24, the Ministry of Labor directed the employees to return to work and enter into discussions with the company. Worldcom will not grant earthquake bonuses or cost of living increases at this time since the impact on Chiltelco would create an impossible cash situation. The syndicates at the Telephone Company are continuing to harrass for wage increases despite the substantial wage increases granted in January. Basso of Worldcom and Holmes are co-ordinating in this situation, and Jule Stimson and Charles Goldman will be in Santiago on Wednesday, August 25, to assist.

During the sitdown strike at Worldcom the employees advised Basso, the manager, that they did not want to have the government intervene the company as they preferred to continue to operate under the management of ITT Worldcom. This is, no doubt, an outgrowth of the problems with the interventor that are occurring in the Directories' company.

6. Political

The political situation continues to be quite fluid. As previously reported, four ministers have resigned, of which only one has been accepted by Allende. It is reported that Allende, on his return to the country from trips to Colombia, Ecuador and possibly Peru on September 3 will re-align his Cabinet in view of the recent turmoil within the U.P. coalition. Most of the disruption occurred in the MAPU and the Radical Party and are a result of splinter groups breaking out because they are dissatisfied with the lack of action on the part of the government. It appears that the government is moving too slowly in changing their policies. A Christian Democrat splinter group joined with the Radicals, forming the Christian Leftists, as they feit the Christian Democrat Party was moving to the Conservative side. This could be a result of the Valparaiso election when they joined with the Conservative Party and defeated Allende's candidate.

All of this may be true, but it does not really change the Congressional balance between government and apposition and it does appear, in fact, that Allende being somewhat of a moderate, compared to several of the more radical, is gatting stronger. His appointments and the activities following them in September will confirm or contradict this rumor.

A far more serious problem facing Allende is his continuing critical economic situation. Foreign reserves continue to deteriorate and are now being publicly discussed in various publications. Copper production is off. All of this I have reported previously. Attached (Attachment 3) is an article from <u>Business Abroad</u> which summarizes the current situation and all his problems. There is nothing in sight, at least being reported or rumored which would indicate that he can or will take action on his economic problems. Strikes continue at the farms and when the spring crops, due later this year, fail to be harvested he is going to face some degree of a food crisis.

Mr. F. J. Dunleavy

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August 24, 1971

7: Garreton's Reply

As reported above, following the Economic Council meeting, Garreton released to the press his comments regarding the negotiations. On the weekend we received through Bennie Holmes a letter addressed to me, a copy of which is attached. (Attachment 4)

He continues to make the key issue the immediate takeover of the management of the Company, but in addition makes a new request—that they receive copies of the insurance contracts between ITT and OPIC for study before any future conversations. This is not—a new request on his part, and we have continued to refuse to give him these documents as being priviledged and confidential between the U.S. government and ITT. Sometime ago the Chilean Ambassador to Washington made a formal request to the State Department for these documents and was also refused.

We have forwarded to OPIC copies of this letter and our continued position of refusing to allow them to be released. To date all the Chilean government has received is the standard OPIC information brochure and are aware of the face value of coverage on our policy--\$105 million.

Bennie Holmes has strongly advised that we do not begin our discussions with Garreton prior to the return to the country of the President and the various ministers who are travelling with him. This will be sometime after September 3. It is his feeling that while . nde is out of the country we would be restricting ourselves from the possibility of holding discussions with other than Garroton. In addition, there is considerable feeling that if there is a Cabinet shakeup, Garreton and the MAPU may not survive.

The following actions have been and are being taken to respond to Garreton's letter to the writer:

- (a) Jule Stimson and Charles Goldman are arriving in Santiago Wednesday morning to make a first-hand evaluation of the current situation and the pressures being applied to ITT and the Telephone Company. They will talk with representatives of the Embassy and the local OPIC man to obtain their feel of the current situation and get updated on the current copper situation.
 - (b) Goldman and Stimson will meet with the consultant I obtained on our last trip to determine the outcome of the discussions with President Allende.

 a former politician and is considered friendly with Allende and as a Christian Democrat is not committed to the U.P. Last week he advised Bennie Holmes that following his appointment to the copper board, who will determine fair value of Anaconda and Kennecott, he discussed with Allende whether he could

Mr. F. J. Dunleavy

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August 24, 1971

represent ITT in the Telephone Company matter. He reported Allende was quite pleased and felt he could counsel ITT and help the parties to come to a fair and equitable solution.

- (c) They will review the current situation regarding rates, the Corfo meetings reported above and other items.
- (d) Upon their return we will finalize our reply to Garreton's letter dated the 19th. Anticipate that discussions will begin again in early September.

Guilfoyle

Enc. 4

cc: Messrs. Geneen, Bennett

LEGAL COMPLEMENT

MEMORANDUM FOR:

Mr. H. S. Gencen

SUBJECT:

Chile

Attached is a background paper on Chile, as requested by you over the 'phone earlier this week. It has been reviewed, and cleared by me, Jack Guilfoyle, Corporate Relations and Treasury (Hal Hendrix and Mord Bogie were the real laboring oars in preparing the write-up).

Jack has asked me to pass along two basic points which he thinks are important in the context of your proposed meeting:

- 1. The United States should continue to exert pressure against the further extension of credits to Chile by either govern-t mental or private bank sources here and in Europe, until adequate compensation is made for companies nationalized or in the process of being nationalized.
- 2. The current inconsistencies amongst various U.S. Government Departments as to the proper policy on expropriations in countries like Chile only complicate the task of private companies in trying to negotiate suitable settlements.

If in the course of your discussion you should be asked "What do you think the Chileans will offer you?", it is the consensus that a reply along the following lines would be appropriate:

"Under our contracts we're entitled to payment in cash of the full book value of about \$150 million. But based on what we know to date, my guess is they will try for substantially less in the form of long-term paper (15 to 30 years) at a low interest rate. In view of their foreign exchange position, it is doubtful they will offer to make any down payment in cash."

A final word of caution: It is strongly recommended that no copy of the attached be 1 it with the person to whom you will be talking. Leaving any such document with an outsider without OPIC's prior clearance could create problems in connection with our insurance claim.

P.S. Tam also engioency 2 attrehim atta furnished by Ned Cerrity's snop. Will Litteran Rechard G. Batterson

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CHILE BACKGROUND MEMORANDUM

Political and Economic Situation

Chile today has the first freely elected Marxist government in the Western Hemisphere. This government characterizes itself as revolutionary, and clearly points to its goal of establishing a socialist society.

The current Chilean experience began on November 4, 1970, with the assumption of the presidency by Dr. Salvador Allende Gossens. Dr. Allende, long associated with the Chilean Socialist Party, is committed to instituting a radical leftist transformation of the nation's social, economic and political implications. He was brought to power as the candidate of the Unidad Popular, a coalition whose principal partners were the Communist (orthodox, pro-Moscow) Party, the Socialist (extreme-left, pro-Castro) Party, and the Radical (non-Marxist left, opportunistic) Party.

Lacking an absolute majority required for direct election under Chilean law (he won with a plurality of less than 1 percent), Dr. Allende had to await a decision on the part of the Congress to make him the new Chief of State.

In two subsequent elections -- the April municipal balloting and last month's vote in Valparaiso province to fill a vacant senatorial scat--Allende's

strength at the polls showed no gains. In fact, his candidate lost the Valparaiso election. Since this defeat, political and economic pressures have put new and significant stresses on Allende's supercharged drive for a Marxist-Socialist "People's Republic of Chile."

During the last several weeks dissension has mounted steadily within Allende's Unidad Popular coalition. There also have been some fissures in the opposition Christian Democratic party.

The behind-the-scenes struggle for supremacy in the coalition has been mainly between the Socialist and the Communist parties, with the Socialists pressing Allende to move more rapidly on all nationalization and socialization fronts and the Communists advocating caution and quickly grabbing any loose Socialist fumbles.

Meanwhile, out in the open, two other components of the coalition--the Radicals and the Popular United Action Movement (MAPU)--have split into so-called militant and moderate factions after more conservative elements charged that their "fellow travelers" were becoming "too Marxist."

The disarray within the Unidad Popular finally boiled into Allende's first public political crunch early in August as five members of his coalition

cabinet suddenly submitted resignations. Ultimately, only one was accepted.

His replacement came from the ranks of the militant MAPU splinter.

Although there was an optical resolution of the cabinet crisis, all reports indicate continuing strains and shifting of political allegiances. In late August there were persistent rumors and speculation that Allende would be forced into a major cabinet reshuffling in the near future.

Far more serious than the action in the political arena are the economic difficulties facing the Allende regime. The full-time Chile watchers predict a major crisis with the Chilean economy no later than the end of the first quarter of 1972. Obviously, this would affect Chile politics.

Although official statistics are difficult to come by in Chile, qualified observers agree that as of September 1, 1971, the country's foreign exchange reserves will stand at about \$170 million, down 55% from when Allende took office. Some observers estimate that these reserves are eroding at a rate of \$30 million to \$35 million per month.

The government has not been able to curb inflation as pledged and in July Allende was forced to devalue the escudo by 50 percent. (The devaluation did not affect the bankers' rate, which is used in foreign trade transactions and by the Chile Telephone Company).

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There are unofficial reports that because of the deteriorating economic situation. Chile is planning on restructuring its foreign debt. In all forms, Chile's debt to the United States now stands at more than \$1 billion.

There are many reasons for the rapid economic skid since Allende took office in November, 1970.

The basic reason for the decline is the fact that the Allende government has no experienced economists and his officials have advised him very badly.

He seems to have recognized this recently and has turned to seeking advice privately from former government officials.

Because of bad advice and his own ignorance of economics, shortly after assuming office Allende declared an across-the-board minimum wage hike of 35 percent. Simultaneously, to prevent an inflationary spiral, Allende froze prices on the theory that business should absorb the loss. The immediate result was an orgy of buying, as Chilean workers suddenly found themselves with escudos to burn.

As inventories were depleted, businessmen grew reluctant to replenish them. In the same spirit, farmers facing expropriation under Allende's land reform program were loath to invest in their farms or bother with production. As a result, there now is a rash of commodity and food shortages, which is certain to

worsen. In an effort to alleviate the situation, the government has been forced to increase food imports and put an additional drain on foreign exchange reserves.

Compounding the domestic economic porblems has been the dip in confidence on the part of the international finance community. Allende is aware of credit tightening in both European and U.S. banking circles.

The recent announcement by the U.S. Export-Import Bank, which in effect rejected a Chile request for a \$21 million loan for the purchase of three Boeing jets, was a severe blow to Allende. The announcement also sparked a new wave of anti-U.S. hostility in Chile, even among Allende's opposition.

One of the darkest economic clouds over Allende at present is the state of Chile's copper industry, which traditionally provides about 80 percent of the nation's foreign exchange.

A sharp drop in world copper prices from about 75 cents a pound last year to under 50 cents this year has coincided with a massive slump in production since Allende fully nationalized the copper industry. A rash of strikes, slowdowns and lack of desire to work every day have cost the country millions of dollars in the last few months. In addition, nearly all competent engineers and technicians who had run the mines for years have quit their jobs. Most have left the country.

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Chile officials talk of turning to the Soviet bloc for financial assistance if it is not forthcoming from the U.S. Soviet bloc nations have pledged credits totalling about \$110 million but to date they have extended only \$10 million.

With so many uncertainties in Chile, and having had a very expensive financial assistance experiement in Cuba, the Soviets are not likely to pour in the amounts of exchange necessary to resolve all of Allende's economic woes.

1TT Negotiations

One of the planks in the socialistic platform of Allende's Unidad

Popular coalition calls for nationalization of telecommunications in Chile.

During the election campaign, Allende stated clearly his intent to fully nationalize the Chile Telephore Company (Chilteleo), which had assets of over \$230 million at December 31, 1970.

ITT owns 70% of Chilteleo. ITT's equity and debt investments exceed \$150 million, about two-thirds of which is insured against expropriation by OPIC.

Thus, IT'T's investment in Chilteleo is on a par with the investments of Anaconda and Kennecott and much larger than that of any other U.S. company.

Chilteleo operates under a 50-year Concession Contract granted 40 years ago. It also operates under special agreements with the government guaranteeing it a 10% annual return on rate base and providing for multi-year expansion programs. The most recent agreement, signed in 1967, covers a 144,000 line expansion through 1971 and the means of financing it--reinvestment

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of 70% of the guaranteed return and equity investments by the government development corporation, CORFO. These equity investments have reduced / ITT's ownership from 92% to 70%, and would have reduced it to a lower percentage if CORFO had invested the full amount agreed to.

The shortfalls in CORFO investment added up to more than \$21 million by the end of 1970. Last year Chilteleo's Board of Directors deferred 20,000 lines of the current expansion program, reducing it from 144,000 to 124,000 lines. The shortfalls in financing from CORFO justify another reduction of at least 30,000 lines.

On February 1, 1971, Chilteleo applied to the government for a rate increase to offset the minimum 35% wage increase, decreed by the government, an other infaltionary factors. The rate increase was necessar; to maintain Chilteleo's guaranteed return and the financing of the construction program. In prior years the rate increase was approved in a few weeks, allowing the annual wage increase to be negotiated in step. This year, however, the government has stalled on the rate increase, while steering the labor "negotiations" to a conclusion in April that brought the total increase up to 49% in wages and higher in fringes.

Lacking any action on the rate application and because of the rapidly deteriorating financial condition of Chilteleo, plus the government's announced intention of nationalization at some future date, ITT requested a meeting with President Allende to discuss the company's problems and to determine what plans the government had for Chilteleo.

Two top executives from ITT headquarters and Chilteleo's general manager met with Allende and his Minister of Interior Toha in Santiago March 10. The financial position of Chilteleo was outlined and prompt action on the rate application was requested. ITT also offered to sell its interest to the government for cash immediately, although the Concession Contract does not expire until 1980.

Allende stated he would need 30 to 40 days to study the situation and would form a commission to study Chilteleo. He said after the commission study was completed and a report made, the government would make an offer to ITT for its equity. He stated he did not plan to seize control of Chilteleo and indicated he might be interested in a mixed company. He said the rate issue would be studied.

Thus, it appeared that at the least a way was opened for negotiations for the sale of all or a substantial portion of ITT's interest in Chiltelco.

For two and one-half months nothing was heard from the government.

On May 26, at the request of Allende, executives of ITT returned to

Santiago for another meeting with the Chilean President. In this meeting,

Allende advised ITT that he had taken a firm decision to proceed immediately with
nationalization of the company. He stated that the government had formed a

special commission to meet with ITT and that he felt the negotiations should
begin as quickly as possible. He further stated that when an agreement in

The next day, May 27, the first meeting between the government commission and ITT was held in Santiago.

principle was reached he would expect ITT to surrender management control

to the government immediately.

After four sessions it became apparent that an impasse had been reached. The government presented a memorandum of observations which boiled down to a conclusion that the government placed the value of Chilteleo's net worth at approximately \$24 million, in spite of the fact that the company records—all of which had been audited by independent public accountants and approved by the Chilean government for almost 40 years—showed the book value of the net worth to be more than \$150 million.

The government commission also took the firm position that it had no intention of discussing book value, that it planned to negotiate outside the

terms of the Concession Contract and subsequent agreements to arrive at a "fair and just" price for the company.

ITT is equally firm that the Concession Contract and agreements are legal documents, and that it is unwilling to sell out for less than book value in dollars.

The negotiation sessions were recessed June 9 while the government considered an ITT proposal to have the company appraised by an outside independent appraisal firm.

In mid-July, ITT was requested to return to Santiago for further discussions with the chairman of the government commission. After several meetings and no visible progress, the ITT group returned to New York to await notification from the government of a desire to resume the negotiations. It was evident during these discussions that the government's chief concern was immediate take-over of Chiltclco's management.

The commission chairman, Oscar Garreton, sub-secretary of the Ministry of Economy, said he would present the ITT proposals to Allende's Economic Council at its next meeting. He also said he would raise the question of the rate increase petition.

On August 19, 1971, Garreton wrote ITT that he had discussed the Chilteleo negotiations with the Economic Council. He stated the government was willing to accept an appraisal by members of the International Telecommunications Union (ITU) from two European countries, but reiterated that the government would have to assume full management of Chilteleo at the time of agreeing to the appraisal. The letter also stated that before the negotiating sessions are resumed, the government must be given copies of ITT's OPIC insurance policies. ITT's position on both conditions is negative.

On the same date, to force the government to act on the rate application, Chilteleo's Board of Directors was asked to formally approve the new rates.

The government delegates on the Board, however, voted against the rate increase thus making clear that the government does not intend to grant it. In fact, one of the government delegates stated that bringing the rate increase to the Board was "an act of hostility toward the government." The split in the Board entitled Chilteleo to appeal the matter to the Minister of Finance, but little relief is expected from the Minister nor is there provision for appeal to court.

. It is not anticipated there will be a resumption of negotiating meetings in Santiago until September.

Impact on ITT Investments

Since Allende took office in November, 1970, Chilteleo has been subjected to steadily increasing pressure and harassment from the pro-Marxist labor unions, including flash seizures of company properties and sporadic wildcat walkouts, and periodic attacks in the government-controlled news media.

For example, in mid-February, union employes submitted a lengthy list of new demands upon Chilteleo, nearly all of which were beyond the limits of existing agreements and ability of the company to comply with. Among these demands, as illustrations, were those calling for rehiring anybody who had been discharged from the company since 1964, free transportation to work and three days off with pay for everyone in the company who gets married.

On several occasions Chilteleo's top management--all Chilean--was locked either inside or outside the company's main office for a period of hours, once overnight, by militant union members.

Although Allende expressly stated to ITT that he wanted no publicity given to the nationalization negotiations, government and union spokesmen v have repeatedly issued distorted statements to the news media.

Early in August it became apparent that attacks against Chiltelco and ITT in the press, radio and television were being intensified and well orchestrated. The theme of the latest attacks is two-fold--ITT is sabotaging the negotiations by stalling the discussions, and Chiltelco's service and equipment are inadequate. Both allegations are untrue.

In another form of harassment, last May 15, another ITT subsidiary, which publishes the telephone directories, was intervened by the government, ostensibly to resolve a labor dispute. The company, which represents an investment of about \$1 million, still is in a state of intervention. Its income forecast of \$473,000 for 1971 could evaporate to zero because of the intervention.

In addition to the media and labor pressures, the government's fiscal policies have presented a more sophisticated harassment.

The cost-price squeeze imposed and maintained by the government on Chilteleo has had a catastrophic impact. Chilteleo's carnings have dropped steadily, so that instead of earning the 10% on the rate base it is entitled to, it is now earning virtually nothing.

. Worse still is the cash situation. Despite a moratorium on payments to ITT and extensions arranged by ITT of foreign bank maturities, and although it cut back construction outlays as far as possible. Chilielco had run out of cash

by the end of March. As a result, it began defaulting in payments to suppliers, contractors and banks, as well as ITT, and defaulted on \$4 million in income tax payments in May and July.

Since the Allende election, U.S. and other foreign banks have been unwilling to make loans in Chile or to refinance existing loans. This position was caused by the hostile attitude of the Allende government towards private enterprise, foreign ownership and the banking sector, and by Chile's declining reserves.

As a result. Children has not been able either to obtain now credity to compensate for the lack of a rate increase or to refinance the \$14 million of existing foreign bank loans. What relief it has obtained from foreign banks has been arranged by ITT. But while the banks may be willing to forbear for a few weeks or even months as a favor to ITT, none is willing to enter into any longer-term solution unless ITT is willing to underwrite the risk of non-payment. This merely increases ITT's exposure to a take-over of Chilteleo.

Without a rate increase, Chiltelco will have a cash gap of more than \$30 million by the end of 1971--that is, it will have defaulted in \$30 million of obligations. The major elements of the cash gap are:

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Operations shortfall \$ 958,000

Debts due ITT Headquarters 8,924,000

Payments to banks, principally foreign 13,904,000

Income tax installments 6,230,000

Total

\$ 30,016,000

By not paying ITT, foreign banks (which would have to be guaranteed by ITT) or its income taxes, Chiltelco can probably stagger through the year.

The next wage increase dictated by the government will be fatal.

Chiltelco's cash shortage has negatively impacted three other ITT

companies in Chile--a telecommunications equipment manufacturer, an inter
national communications carrier (which the government has an option to

buy out), and the telephone directory company. These and ITT's two hotels

(both with government minority interests) have all felt the wage-price squeeze and
have been subject to harassment by labor unions, which are government controlled.

As a result of the Allende policies towards Chilteleo and the other companies, remittances to ITT have fallen off sharply. In 1971, to date, the total is less than \$1 million, all for debts due. By contrast, some \$10 million in debt payments and dividends was expected this year from Chilteleo alone.

From 1961 to 1970, ITT reinvested \$78 million of earnings in Chilteleo, and paid withholding taxes on remittances of a further \$6 million. During this

period ITT took out only \$19 million in net remittances. That is, ITT invested \$84 million and repatriated less than one-fourth of this amount. Nor does the \$84 million include roughly \$40 million in bank loans and supplier financing of the Chilteleo expansion program arranged through ITT system houses.

In these circumstances, having to forego \$10 million in remittances from Chilteleo is a severe blow to ITT's foreign remittance program under OFDI.

OPIC

ITT has \$105 million of empropriation incurance currently in force covering its investment in Chilteleo and another \$7 million covering its hotel investments.

OPIC has been kept informed on a weekly, daily and sometimes hourly basis of developments in Chile and negotiations with the government. With respect to Chilteleo, OPIC has indicated its agreement that the one-year period it takes an expropriatory act (as defined in the OPIC contracts) to mature has already begun to run, and written acknowledgment has been requested.

OPIC has been furnished all of the records of ITT's investments in Chilteleo and is currently discussing them with its outside auditors and ITT. It is expected that all of the open questions asked by OPIC and its auditor will have been answered within the next couple of weeks.

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August 31, 1971

MEMORANDU

Dr. Communication

SUBJECT:

Telephone Conversation with Bill Quigley, Vice Chairman of the Board, Anaconda

In talking with Bill Quigley regarding OPIC's request to release the documents he indicated he had not received any requests from OPIC to release the Anadonda insurance contracts. He was surprised that they would even consider doing so. He stated the Anaconda situation was different than any others insured in Chile since Anaconda has a dispute with OPIC regarding coverage. He stated that if queried by OPIC he would be adamant and refuse to release these documents as he felt it would be detrimental to any situation.

He stated in his recent trip to Santiago that he had heard from several locations that the government of Chile feels that their responsibility to negotiate to satisfy U.S. government needs would be to offer settlement up to the level of OPIC insurance. He has so indicated to Washington reps that this type of statement is highly inaccurate from Anaconda's point of view and must be corrected.

He also advised me that his recent trip and discussions in Santiago was of absolutely no value and that on return he and Mr. Place, the new President of Anaconda, spent one week in Washington D.C. They visited OPIC; Jack Irwin, Deputy in State; McNamara of World Bank; Kissinger, Chief of Staff in the Pentagon and various representatives on the Hill. Their pitch was that American business had no leverage left in Chile since they had a lame duck Ambassador and that unless strong economic sanctions were taken that it gave the U.S. companies no opportunity to negotiate reasonable solutions to the expropriations. They urged that in view of Korry's departure sometime during September that President Nixon appoint a Special Envoy responsible directly to him to go to Santiago to help create a reasonable solution to the current difficulties. He stated it was taken under advisement and they as yet have not heard any answer. He had not as yet met with the new Ambassador to Chile, Nathaniel Davis.

. W. Guilfoylo

RECEIVED

MEMORANDUM FOR RECORD

SUBJECT:

Telephone Conversation - Frank Milliken, Kennecott Corp.

Talked with Frank Milliken, Kennecott Corp. today regarding the recent strong recommendation by OPIC that we release to the government of Chile our insurance contracts. He replied that he has had no request from OPIC nor from the Chilean government to release their documents and that it was his impression in previous discussions he has had with OPIG that OPIC considered these documents as privileged between Kennecott and OPIC. He indicated he will keep us advised if he receives any similar request from OPIC.

CHILTELCO AUGUST BUILD-UP CHRONOLOG

Supt 2, 197

July 26-- Informal meeting with O. Garreton, who said he planned to present ITT position and proposal for appraisal to the President's Economic Council; he would advise when talks could be resumed in Santiago.

- August 6-- B. Holmes met with Interior Minister Toha to discuss lack of government action on rate petition; Toha said he would discuss matter with Allende at dinner August 8 in Vina dol Mar.
- August 7-- Hostile press campaign started with declarations by Santiago

 Workers Union president, charging that ITT was sabotaging
 negotiations by delaying discussions. Union leader said information was from Garreton, who also stated accusations.
- August 9-- Economic Council met at La Moneda with Allende and heard a review by Garreton of the negotiations. Council declined to endorse rate petition. Also at meeting were dinisters of Economy, Finance and Mining, president of Central Bank and several other ministry sub-secretaries. CLARIN quoted one attendee coming out of meeting to say that "the discussions could not be going better."
- August 11--Stories about the Economic Council meeting appeared in nearly all the Santiago press.

Page two

- August 12-- Pending application for rate increase was discussed at CTC board meeting, without resolution.
- August 13-- Stories appeared announcing the Export-Import Bank refused to grant loan to Chile for purchase of Boeing jetliners for LAN-Chile, sparking a flurry of anti-U.S. comment in all Santiago media.
- August 19-- CSESAC and Chiltelco received letters from CORFO

 requesting meetings to "commence a complete analysis"

 of CORFO's relations with both companies.
- August 19-- Fiscal delegates rejected rate increase when petition submitted to CTC board for approval; Novoa called presentation of rate matter to board a "hostile act."

 Service attacked at meeting in strong memo from Toha.
- August 19-- Ad appears in El Mercurio, signed by company engineers, attacking equipment and service of CTC.
- August 19-- Statement issued by Ministry of Interior, charging in strong attack that GTG has "broken its commitment to provide efficient service." Guias was included in attack, termed a "fictitious corporation."
- August 19-- Letter written by Garreton to J.W. Guilfoyle, accepting appraisal concept, with condition government assumes immediate management of CTC, and requesting copies of OPIC policies.

Page three

- August 20-- Santiago press published stories on Ministry of Interior statement and action taken at CTC board meeting.
- August 23 -- Allende leaves on 10-day trip.
- August 23-- CTC workers called press conference to "denounce sabotage being carried out by company's executives."

 Story got prominent play in Communist and government press.
- August 23.- Appeal brief on rate request presented to Minister of Finance.
- August 24-- CTC personnel manager met with representatives of unions and Ministry of Interior. Union charged CTC management was issuing pamphlets against the government and inciting personnel "to take over the building so that ITT could collect its insurance." (Subsequent examination of some of the pamphlets led to speculation that union was printing them to appear that it was a CTC action.)
- August 24-- ITTCOM workers go on strike, demanding "earthquake bonus." (Settled August 25.)
- August 27-- Garreton writes second letter to J. W. Guilfoyle, registering his protest against bringing up the rate issue at the CTC board meeting August 19.
- August 27-- Operators in Antofagaata staged sit-down strike, demanding salary levels equal to Santiago.

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Sept. 2, 1971 Page four

- August 27 -- CTC Santiago union calls for meeting August 31.
- August 27-- So-called earthquake relief loan from CORFO turned down
- August 30-- Workers in Iquique and Talca joined in demands for Santiago wage levels.
- August 30-- Report reached D. Gillen that MIR planning to cause trouble

 by taking over several companies, with CTC having top

 priority.
- August 30-- Flash strike by workers at Carrascal-Lourdes plant
 because of alleged delay in salary payments.
- August 30-- Critical story against CTC appears in ULTIMA HORA

 (Tora's paper), saying that "action against the telephone monopoly is imminent."
- August 31-- Minister Vuskovic announces that the negotiations have collapsed and National Telecommunications Commission urges workers and authorities "to take immediate steps to nationalize CTC." Strong media coverage.
- August 31-- B. Holmes learns that Treasury Department is planning to
 embargo GTC bank accounts because of delay in paying
 GTC income tax. (The embargo was placed on the accounts
 September 1).

CHILTELCO Chronology--September 1971

Sept. 16--

ITT team met with Minister of Economy Vuskovic and his financial advisers to discuss appraisal methods for evaluating CTC and make-up of proposed 3-man team to manage CTC during the appraisal.

Sept: 16-

Santiago press carried statement by Minister of Interior Total saying that government would determine the status of CTC within the next 24 hours and that ITT's proposal was being evaluated.

Sept. 16--

Chilean news agency ORBE issued story saying that ITT had submitted "a concrete proposal" to President Allende.

Sept. 16-

ITT's press release (Sept. 15) announcing Chilean government will nationalize CTC within next few days not used by media in Santiago.

Sept. 16-

CLARIN continued its attacks on CTC's service and equipment.

Sept. 16 --

Letter prepared and forwarded to Jose Toha from J. Guilfoyle reviewing points discussed with President Allende the previous day.

Sept. 17--

Letter sent from Ministers Tona and Vuskovic to J. Guilfoyle repeating points covered in previous day's meeting.

Sept. 20--

GOC announced in press that it intends to take over management of CTC prior to completion of negotiations---AP News---L.A. TIMES 9/20/71.

2. -

Sept. 22-

EL MERCURIO published story of meeting between Economic Committee of Ministers and Prosident Allende at which nationalization of CTC was discussed.

Sept. 22-

Jack Guilfoyle replied by letter to Ministers Toha and Vuskovic letter of Sept. 17; text reemphasized ITT's desire for quick solution to nationalization of CTC.

Sept. 23--

GOC decree for intervention of CTC signed by President Allende and Ministers Toha and Valdivia. Jaime Schatz of Servicios Electricos named CTC interventor.

C--1 22

EL MERCURIO carried story on intervention of CTC.

Sept. 23 --

Release prepared for distribution by ITT announcing intervention of CTC by GOC, if and when decree published.

Sent 23-

Press conference held by Interventor at CTC to explain reasons for government intervention.

Sept. 24-

EL MERGURIO carried story of press conference at which new interventor emphasized the inefficient service rendered by CTC was main reason for intervention.

Sept. 24.:

EL MERCURIO editorial discussed courses GOC could have taken to nationalize CTC but instead GOC chose to ignore Congress and proceeded through administrative measures to seize the company. Sent. 25-

Benny Holmes and officials of ITTWD arrested by GOC's The General Investigations Command (DGI); all with the exception of Gonzalo Van Wersch released on bail.

Sept. 25-

At 2 p.m. GOC made announcement on all radio stations that arrest of Benny Holmes and other officials was initiated by the Council for Defense of the State, an autonomous organization. In other words the GOC was not responsible for this action.

Sept. 26--

Attorney Eduardo Novoa, head of the State's Defense Council, issued statement in connection with the action brought against executives of telephone company.

Sept. 27--

Jack Neal called on Chilean Embassy for advice and assistance regarding arrest by GOC of telephone officials.

Sept. 27-

OPIC supplied with copy of ITT proposed news release pertaining to intervention of telephone company.

Sept. 27--

Although interventor decree has been prepared decree has not been published. Perez Cotapos advises there's a 99% possibility that decree will be published shortly.

Sept. 28--

Statement prepared for delivery to interventor when decree published. Same information will also be given to press.

Sept. 29--

The Decree of Intervention published in the Official Gazette.

Sept. 29-- ITT release announcing Chilean intervention released to all worldwide news media.

Sept. 29-- OPIC supplied with text of decree as published in "Diario Official."

Sept. 30-ITT's letter of protest regarding intervention forwarded to
Chilteleo lawyer for delivery to Chilean Ministers Toha and
Vuskovic.

Sept. 30-- OPIC prepared and delivered to news media their release on GOC's action and intervention of Chiltelco.

H.S.G. SEP 7 19/1

John W. Guilfoyle Vice President International Tolephone and Telegraph Corporation

World Headquarters

320 Park Avenue New York, N.Y. 10022 Jelephone (212) 752-6000

September 3, 1971

The Honorable William P. Rogers Secretary of State Department of State Washington, D. C.

Dear Mr. Secretary:

Because of rapidly unfolding events in Chile affecting our Clabe Telephone Company it is will a sense of urgency that I, as President of ITT Sud America, majority stockholder of the Chilean (company, dispatch this letter to you.

For the last several weeks our company has been subjected to ominous harassment by Chilean labor leaders and government spokesmen, and in the Chilean news media. These seemingly well-orchestrated attacks have occurred while we were conducting what we believed to be amicable negotiations with the government for nationalization of the company,

The latest and perhaps most serious blow to date against the company occurred Wednesday, September 1, when the Government of Chile embargoed the bank accounts of the Chile Telephone Company. Officials of the Chile Telephone Company are in contact with government representatives to try to work out the release of the accounts. If these efforts are not successful, the company will be cut off from its sources of cash revenue and will within a period of about a week be unable to meet scheduled disbursements for payments due, including payments to the government.

The bank accounts were blocked for non-payment of taxes. The Company's inability to pay the taxes is a direct result of a

deliberate denial for more than seven months of a tariff increase by the Government of Chile and the inability of the company to obtain bank loans or refinancing from Chilean banks.

Last February 1, the Chile Telephone Company applied to the government for a rate increase to offset the minimum 35 per cent wage increase, decreed by the government at the beginning of the year, and other inflationary factors. The government stalled on the petition, and the company in the interim was subjected to a total increase of 49 per cent in wages and fringes through government-enforced "labor negotiations." The cost-price squeeze has had a catastrophic effect. The government has effectively decreed the company into bankruptcy.

Obviously, the embargo will cause further dissipation or destruction of the Chile Telephone Company's assets and substantially impair its value as a viable operation.

On the day previous to the embargo, Minister of Economy Pedro Vuskovic. in his dual role as acting Minister of Interior, amounted without any warning to Chile Telephone Company that "negotiations with ITT had collapsed," and urged that the authorities and workers take immediate action to nationalize the company. We were totally unaware that our discussions "had collapsed."

It has become apparent through the aforementioned events that some form of expropriatory action by the Government of Chile may be imminent. Therefore, I wish to present some factual background for your consideration.

As you know, one of the planks in the socialistic platform of President Allende's Unidad Popular coalition calls for nationalization of telecommunications in Chile. During the Chilean election campaign last year, Allende stated clearly his intent to fully nationalize the Chile Telephone Company, which had assets of more than \$230 million at December 31, 1970. We have never questioned the sovereign right of the Chilean government to nationalize the Chile Telephone Company, but have always anticipated receiving fair and adequate compensation for our investment.

ITT owns 70 per cent of the Chile Telephone Company. ITT's equity and debt investments exceed \$150 million, about two-thirds of which is insured against expropriation by the Overseas Private Investment Corporation (OPIC). The Chile Telephone Company's records all have been audited by independent public accountants and approved by the Chilean Government for 40 years without interruption.

The Government of Chile, in its negotiations with ITT, has stated that it considers the value of ITT's interest in the Chile Telephone Company to be only about \$19 million, which is absurd.

At President Allende's request, we entered negotiations with the Government of Chile in good faith that a fair and just resolution of the nationalization could be achieved. It has become obvious through sustained harassment that this good faith was not shared by the Chilean government.

It has been our policy, Mr. Secretary, to keep the Department of State and OPIC fully advised of our negotiations and efforts to reach an amicable settlement. I am certain that you are aware that we have been co-operative and patient to date.

However, the Department of State must fully realize that our Chile Telephone Company and ITT, as well as other U.S. corporations that already have lost holdings through nationalization or expropriation in Chile, are at the mercy of President Allende's Marxist regime because of a lack of meaningful leverage.

We are not clear, Mr. Secretary, on precisely what the United States government is doing, or plans to do, to protect investments by North American corporations in foreign countries-investments that the United States government has in past years encouraged us to make to assist in the social and economic development of the Western hemisphere.

Therefore, inasmuch as it appears that the Government of Chile may be on the brink of scizing our company instead of negotiating its purchase, I respectfully request you to take such action as appears to you to be necessary to cause the Government

- 4 -

of Chile to reflect on its actions with a view toward making adequate and fair compensation to ITT.

I shall be pleased to provide you with any details about our operations and negotiations as you may desire, and would welcome an opportunity to travel to Washington to discuss this matter with you and your staff at your earliest convenience.

(

TRIZ ROPY FOR

Sincerely,

cc: Messrs.

Charles Mayer
Henry Kissinger
Bradford Mills
Marshall Mays
John L. McClellan
Frank Church
Dante Fascell
Herbert Salzman

bcc: Messrs.

F. J. Dunleavy
P. P. Donnett
L. Hamilton
H. Perry
E. J. Gerrity
H. Albel
H. Knorte
E. Duteson
E. P. Vullaco
K. M. Perkins
J. Elimson
M. Dogio
P. Connery

H. Hendriz Merriam/Real

H.S. Geneen≪

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Washington Office

1707 L Street, N.W. Washington, D.C. 20036 Tel. (202) 296-6000 -

70:

Mr. W. R. Merrian

Dete: September 27, 1971

From:

J. D. Neal

Subject:

Chile; Visit to Chilean Embassy

This afternoon, I called on Pablo Valdez, Minister Counselor of the Chilean Embassy. Ambassador Letelier was not available because he is en route to New York to meet the Foreign Minister.

I told Valdez I came for advice and assistance because his government arrested the managers of two of our Chilean companies, plus our attorney and one other official,

I stated the security of these Chilean citizens is our main concern, but wished to point out that the administration of our companies has been obstructed and the usefulness of these officials in our negotiations is seriously damaged. I stated the undignified manner in which these Chileans have been treated leaves them wondering what they might next expect.

Valdez was most sympathetic but admitted his effectiveness was restricted. I said I realized this, but wanted him to inform Ambassador Leteller in order that he could tell the Foreign Minister how damaging this action is to Chile. I told him the American Embassy had made representation to the Crime Minister; that ITT officials are protesting to the State Department; that Congressional inquiries are coming into ITT; and that official Washington in general is indignant. He admitted he had read about the incident in the press.

Valdez stated he would not only report to the Ambassador but would cable the Foreign office in Santiago.

Suggested Further Action

Since the Chilean Foreign Minister is arriving in New York for the U.N., I suggest we send a message to George Bush, the U.S. Ambassador to the U.N. The usual procedure is for our U.N. Ambassador to receive each of the visiting Foreign Ministers; most of the time the U.S. Secretary of State also attends. We should ask that the Chileco matter be presented at any meeting with the Chilean Foreign Minister.

() SEP 2 8 1971

THIS IS A CRYPTEL 240 MESSAGE. INDICATOR (FAIHON)

System Confidential

THIS IS ITTHOUY 1: 15 PM EET / P.H.

SENT CRYPTEL 2;00PM/RD 1731-G/J

BHOZM.S. GENEEN - HITE BRUSSELS THOZE.J. GENEITY - HITHCHY TO FROM

SEPI 27, 1971 / 1237 DATE

BROZE DUBLEAVY, B BENNETT, PARILTON, K PERKINS - ITTE BRU UMQZQULETYLE, STITBOU, GOLDTAN, ROGIE, COUNERY, HENDRIK - ITTERNY CC

URGENT

SYSTEM - CONFIDENTIAL

1731-6/J (PAGE ONE OF THREE PAGES)

Carast out to invite it to

- 7. HOWEVER, MIGUEL SCHWEITZER, CHILE'S FORENOST CRIMINAL LAUYER, WHO HAS BEEN RETAINED, STRONGLY PROTESTS RELEASE
 - OF ANY MATERIAL TO NEWS MEDIA AT THIS TIME. HE OBJECTED
- STRONGLY EVEN TO RELEASE OF CHILTELCO STATEMENT SATURDAY.

 8. THE CHILEAN GOVERNMENT IS INSISTING THAT THIS IS STRICTLY A CIVIL MATTER AND IS NOT A COVERNMENT ACTION. WHEN U.S. EMBASGY MADE INCUMENT STATUMAY IN SAMILACO, THE GOVERNMENT EXPRESSED RESENTMENT, STATUM THAT THIS WAS AN INTERNAL CHILEAN CIVIL MATTER INVOLVING ONLY CHILEANS AND WAS OF NO CARCLE TO THE TRANSFER.
- CONCLET TO THE EMBASSY.

 9. WE ARE MORKING CLOSELY WITH EL MERCURIO IN SAUTIAGO ON THIS AND INTERMEDIANTION ISSUE. TEST OF EL MERCURIO EDITORIAL FOLLOWS THIS MESSAGE.
- 10. ON THE-CHILE POLITICAL FRONT, THE CHRISTIAN DEMOCRAT OPPO-SITION BEONE OFF ITS WORKING COMPACT WITH THE ALLENDE GOVERNMENT SATURDAY NIGHT AND NOW POSE THE THREAT OF UN-COMPROMISING OPPOSITION TO THE CONLITION REGILE. DETAILED CHANGES IN CHRISTIAN DEMOCRATIC POLICY WILL BE WORKED OUT THIS WHER.
- 11. I EELIEVE IT VOUVD DE ADVISABLE TO SEND AN ITTHONY EXECUTIVE WHO HAS DEEN WORKING CLOSCLY WITH HOUSES TO SUPTIAGO AS SOOM AD DOCTULE TO RESIST FULDES AND DEMONSTRATE THAT ITTHONY STANDS FIRELY BEAUND HIM AND THE OTHER CHILEAN EXECUTIVES BAKED IN THE ARREST WARRANT. SINCE THE CHILEAD GOVERNERT INSISTS THIS IS STRICTLY A CHILEAU MATTER INVOLVING CHILEAND, IT VOULD NOT APPEAR THAT A NEW YORE ENDOUTIVE VISITIES SANTIAGO NOW WOULD BE SUBJECTED TO ANY ARROHUAL RISK.
- 12. IN REVIEW OF THE RESERVATIONS EXPRESSED BY SCHWEITZER CITEM TO VE MAVE BOT TAKEN ANY ACTION IN WISHINGTON TO AID BEHRY'S POSITION. HOWEVER, WE ARE LONGULATING SOME PLANS.

 13. JACK CEAL VILL CALL ON THE CHILLIN MERSSADER MERRLY TO
- 13. JACK SEME VILL CALL OF THE CRITERY ASPASSAGE MERRLY TO REGISTER OUR SUPPRISE AND CONCERN AND TO ASSURT HIM THAT WE STAND BECKES AND TEAT THIS ILL-CONSIDERED ACTION WILL BUT HEREOF FAMORABLY OR CRITE'S REPUTATION IN THE WORLD.

FOLLOWING IS THE TRANSLATION OF "TEL MERCURIO'S " CURRENT EDITORIAL:

CEND PAGE TVO OF THREE PAGES) COLLEGE CONTROL CONTROL CONTROL



System Confidential

GUOTE

THE GOVERNMENT HAD TWO COURSES TO TAKE TO MATIONALIZE
THE TELEFRONCS, ONE WAS TO SEND CONCRESS A DRAFT LAW
ALLOWING THE EXECUTIVE TO EXPROPRIATE THE PRIVATE INTERESTS
INVESTED IN THAT ACTIVITY. THE OTHER WAS TO ADJUST CONTRACTUALLY
THE TERMS THROUGH WHICH PRIVATE INVESTORS WOULD CEDE
THEIR PROPERTY TO THE COVERNEENT.

APPAREMMENT THE EXECUTIVE TOOK THE FIRST COURSE AND THE
CONVERSATIONS WHICH THE REFUGENTATIVES OF ITT DID NOT LEAD
TO AN AGREETENT.

THE COVERNICAT'S ALTERNATIVE WAS EVIDENT. IT SHOULD
MAVE SENT COLORESS THE RESPECTIVE UPART IN ORDER
TO COMPLY WITH THE CONSTITUTIONAL NOMES THAT GUARANTEE IN
CHILE THE FIGHT OF PROPERTY.

FOLLOWING THE ACCUSTOMED ILLEGAL PROCEDURE IT THE GOVERNMENT HAD TWO COURSES TO TAKE TO MATIONALIZE

FOLLOWING THE ACCUSTOMED ILLEGAL PROCEdure IT AGAIN IGNORED CONCRESS AND, THROUGH AMBINISTRATIVE MEASURES, WENT AFTER THE DEPARTS SEIZURE OF THE PROPERTY OF THE CHILE TELEPHONE COMPANY.

CHILE TELEPHONE CONDAIN.

THIS IS AN ACT OF FORCE THAT ADDS INCTHER SHIDOW TO THE POLITICAL EXPERIMENT INITIATED BY PRESIDENT ALLEGE UNDER THE RELITEDATED FROMISE TO ACT MITTING THE CONCITIVIONAL KORM FXISTING WHEN THE CUMPACT FRESHFAT WAS ELECTED.

THE TELEPHONE ALGORIZE BY THE CONCENT WAS ELECTED.

THE TELEPHONE THAT IT SIGNIFIED ABOUT TO TO THE RADIOUSLISM, AND TO TOWARD SOCIALISM, IT ISN'T SHANCE, THEREFORE, THAT EACH EXPROPRIATION CAPPIED OUT BEHIND THE PACK OF CONCRESS CIVES THE SO-CALLED "UNILEDAM ROCEL". A SIDILARITY TO THE "INTERMITIONAL PORCL" PUT IN PRACTICE SOME TIMES BY THE COMMUNISTS THROUGHT THE WORLD AND THUS WEART THE OPEN OF DEMOCRATIC OPINION TOWARD THE

THUS DEARFYING THE SUPPORT OF DEMOCRATIC OPINION TOWARD THE CONDUCT OF OUR COVERNMENT.

IT WOULD BE ASSUMD IF AT THIS ECREET WE WOULD DERY THE KAMY PUBLIC COMPLAINTS AGAINST THE YELEPHOMY SERVICE IN REALITY, THERE ARE FUR COUNTRIES THAT DON'T HAVE A CONCUSTION OF TELEPHOMY THAPFIC AND OTHER INCOMMENTERS CAUGHD BY THE PAPID GROWTH OF TELEPHOMY SERVICE CONSUMPTION.

AND FINANCIAL AND TROUBLEAU FROMEIN CONFIDENCE IN SUFFICIENT AND FINANCIAL AND TROUBLESS OF THE LAST FIVE YEARS, MANY SUCOTRS OF THE TELEPHOMY HAVE COMPLAINED ABOUT THE LACK OF SERVICE.

THE FOREMA COMMEND BY THE MYSION TOWN IS THE PAPID ALLIANTON OF THE COLLAND THIS IS EQUIVALENT TO SUPPOSED THAT THE INSUFFICIENCES ALL DURING TO BE EXCESSIVE PROFITS THAT THE FOREIGN MEADOWARTERS, THE LACK OF TWISTORY AND FAULTS IN THE RABBUTTANNOE OF LATINGTERS AND DESCRIPTIONS.

BEST COPY AVAILABLE

EVEN ACEPTING THE OBJECTIONS WITH RESPECT TO THE DISINTEREST OF THE CHILE TELEPHONE COMPANY AND SUPPOSING FURTHERMORE THAT THE RECEDY FOR ALL THE PUBLIC PROBLEMS AND ITS INCREASING SERVICE

THE READY FOR ALL THE PUBLIC PROBLETS AND ITS INCREASING SERVICE REQUIREMENTS WERE STATE CONTROL. THE PATH OF EXPROPRIATION WITHOUT LAW CONTINUES TO BE WORTHY OF RESPOZENTAND HIREMAN JURINICAL TO THE PRESTICE AND EFFECTIVENESS OF THE CHILEAN JURINICAL SYFTEM.

IF THE COVERNMENT HAS GOOD PEASONS FOR PROCHEDING TO NATIONALIZE, EVERYTHING SHOULD HAVE COUNCELLED THAT THEY BE SHOULTED TO PARLIAMENT, WHERE SUBSELY THEY YOULD HAVE FOUND A VELCORE JUST AS THE CORRES BATHALLE FORM AND FOUND AND FORMS. AS THE COPPER MATIONALIZATION FOUND OPSTACLES, FORM THAT,
THE COPPER MATIONALIZATION FOUND OPSTACLES, FORM THAT,
THE COPPER MATIONALIZATION FOUND OPSTACLES, FORM THAT,
ABLE PROCEDUE, EVEN FACE THE POLITICAL POINT OF VIFV, UNLESS THE
REAL OBJECTIVE OF THE GOVERNMENT IS TO FORMET WHAT WAS DISCUSSED
RECENTLY WITH THE DEROCATIC CHRISTIAN DIRECTORALE AND INCOME. RECENTLY WITH THE DEMOCRATIC CHRISTIAN DIRECTORATE AND IGNORY
THE IDEA OF FRANKING WITHIN THE LAW THE ADMIRANT EYPROPRIATORY
PROCEDURES INITIATED OUTSIDE THE LAWAKER, IN THIS LAST EVERTUALITY
THE COUNTRY SHOULD CLUARRY KNOW THEN THAT THE PENCHATIC AND LIGAL
"HODEL" HAS FAILED AND THAT THE DEFACTS COURSES ARE THOSE THAT
HAVE PRICEITY IN CHEATING THE AREAS OF STATE COURSEL.

IN ANY CASE, IT IS DEFICIABLE THAT A REW EXPROPRIATION IS
UNDERTAINED VITHER TO ASSET A SERVICE PROCESSED."
"THE BROKES OF THE STATE TO ONE COME ASSURE."

THE BORRS OF THE STATE HO ONE COULD ASSURE. END TRANSLATIONS.

ETCUONU

(END PAGE THREE OF THREE PAGES)

REGADOS GERRII Y ORIGINAL TO MR GERRITY

COPIES TO MR GLMEEN (3 COPIES)

MR DUBLEAVY MR DERNETT

MR HAMILTON MR PERKINS

MR GUILFOYLE

MR SYMISON

MR GOLDMAN MR DOCART

HR COUNTRY

MR HERDELX

System (Deall Asserted.

BEST COPY AVAILABLE

DAT	E 9/28
TO FROM	TO FROM
E. J. GERRITY	L. J. KALLSEN
J. A. ABBOTT	J. D. KEAVENY
H. ANDERSON -	D. H. KIERNAN
J. D. BARKER	M. D. KIRKWOOD
D. D. BEARD	J. L. LOWDEN
J. A. CARLE	G. J. MASSAUA
T. H. CASEY	W. J. MCHALE
T. J. CONNOLLY	T. S. MENKEL
R.A. CRONENWETT	Linuci W. R. MERRIAM
L. B. CUTTER	J. D. NEAL
R. D. DEASY	R. V. O'BRIEN
G. A. DELHOMME	K. M. PERKINS
M. M. DE LORME	A. J. PUGLIESE
E. DUNNETT	J.F.RYAN
R.H.FITZGERALD	J.E.SCHLAIKJER
J. P. Friday CK	" R. L. SCHMIDT
T. C. FLYNN	A. D. SQUEGLIA
E. W. FRISBIE	H. J. TAGGART
R. L. GRECO	R. K. TAUBE
H. V. HENDRIX	. K. J. VIGUE
J. V. HORNER	E. R. WALLACE
J. P. JANNIJZZO	E. A. WHITE
Urgent	ok
Handle	Information
Draft reply	Circulate to Stall
See me	Return
Call me	File
Review and Comment	Bring Up
Follow up	Initial and Return
Summarize	Discard

MANAGER TOTAL

Mr. H. B. Geneen

SUBJECT:

CHILE/ANACONDA

September M. 1977

I talked to Bill Quigley, Vice Chairman of Anaconda, today and he had several significant comments to make regarding the tack the government of Chile is taking against Anaconda in valuing their copper properties.

Bill Quigley met with Allende immediately following my meeting with him on Wednesday, Soptember 15. In his meeting with Allende he was told that the government of Chile was reviewing all of the excess profits that have been earned by Anaconda and as soon as Allende had all of the facts he would make a final determination. This is due to be published by October 14 by the Comptroller General of the Country.

Quigley advised me that the GOC have put together a several hundred page report outlining their objections to the value that Anaconda has placed on their property. The total of the objections taken by the government of Chile is in excess of \$600 million. The objections cover the three major properties of Anaconda including machinery, personnel housing, offices, office equipment, etc.

The original cost new of the equipment objected to was \$205 million and presently valued at \$108 million after depreclation. The GOC by using replacement cost new calculated the replacement cost at close to \$600 million.

They also attack several major projects that Anaconda had engineered and planned and applied a cost factor that would be necessary to correct Anaconda's deficiencies

On excess profits, they added up all profits earned in excess of 14% per year on assets, but did not deduct the income due and payable in those years where 14% was not earned.

Bill Quigley also told me that in Kennecott's case the most recent expansion program that Kennecott undertook was declared improperly planned and poorly engineere; and given zero value by the GOC in determining what is called "fair and reasonable value."

It is clear that this is the type of tactic that we can expect in the Telephone Company as many of these have been used on us by the Commission over the past Mr. Geneen/Mr. Dunleavy

September 24, 1971

several months. As you are well aware, we have been hit in the newspapers for excess profits and a poorly planned expansion program. Both Anaconda and Kennes cott had government approval of their expansion programs in much the same manner that we have with our 1967 Convenio. The attitude is clear that this government does not recognize prior governments' approvals and/or responsibilities.

J. W. Guilfoyle

cc: Messrs. Bennett, Albel, Gerrity, Bateson, Stimson, Goldman, Hendrix

Dale: September 28, 1971

Chile Nearing Crucial Period

Within the next sixty days President Allende's Socialist regime will enter a narrow channel of monetary strain. If he succeeds in weathering this crucial stage then he will be fortified and strengthened to continue his policies which are so devastating to U.S. relations in Latin America.

Allende Vulnerable

Allende is particularly vulnerable during the next six months. He must meet heavy foreign debt funding. His cash reserves are dwindling. Chile's copper has been compromised. Allende's sources of foreign credit are narrowing. His local revenue is jeepardized by a drop off in business and trade activities. There is considerable discontent among various groups such as (I) merchants, because they have been forced to assume much of the brunt of Allende's economic policies; (2) customers, who are doing without usual items; (3) farmers, because of invasion of properties and low prices; (4) laborers, who are unhappy with some of Allende's unfulfilled promises.

Military

Also, there is the beginning of concern on the part of the Military. They see the Chile scene slowly crumbling and realize that, before economic chaos takes place, the armed forces will have to step in and restore order. There are also signs of anxiety within the Chilean Navy, which traditionally is quite an elite group.

Some Forces of Possible Opposition Remain Intact

The possible deterrent forces which can thwart Allende and which remain intact are:

- 1. Military
- 2. Judiciary
- 3. Civil Service
- 4. A crippled news media
- 5. Fragment of the legislative branch

During the crucial period, these forces must be utilized to every adventage against Allende's continued success. (Ways and means can be discussed later.)

Allende Personally

President Allende is personally vulnerable. He is a vain man and must succeed, otherwise is frustrated. He is sensitive to his international reputation. If his projects bog down, he hurts. If his credit is cut, he is embarrassed.

Allende wants to show the world his "Third Way," or his ability to live with Communism as a success. His Communist friends are backing him.

Chile is hosting the worldwide UNCTAD (United Nations Trade and Development Meeting) in May, 1972. Allende intends to use this as a showcase for his policies. He is having problems with construction, etc; and is vulnerable on this point.

Action

I believe it should be suggested that the Chile situation warrants high priority by the entire Administration and that everything should be done quietly but effectively to see that Allende does not get through the crucial next six months.

He might propose the White House establish a special task force within the National Security Council to put pressure on Chile.

This group could take action such as the following:

- 1. Continue loan restrictions in the international banks such as those the Export/Import Bank has already exhibited.
 - 2. Quietly have large U. S. private banks do the same.
- 3. Confer with foreign banking sources with the same thing in mind.
- 4. Delay buying from Chile over the next six months. Use U_{\star} S, copper stockpile instead of buying from Chile.
 - 5. Bring about a scarcity of U. S. dollars in Chile.
 - 6. Discuss with CIA how it can assist the six-month squeeze.
- 7. Get to reliable sources within the Chilean Military. Delay fuel delivery to Navy and gasoline to Air Force. (This would have to be carefully handled, otherwise would be dangerous. However, a false delay could build up their planned discontent against Allende, thus, bring about necessity of his removal.)

3

- 8. Probably will be necessary to give dollar assistance to the crippled news media because this factor is quickly going down the drain and "El Mercurio," an outspoken opponent, could be wiped out on a moments notice.
 - 9. Help disrupt Allende's UNCTAD plans.
- 10. Expropriations and nationalization of U. S. private investment without full and immediate indemnification is directly detrimental to the U. S. balance of payments. It serves to disrupt the equilibrium and faith in the dollar.
- The U. S. Government is doing everything possible to balance the budget, strengthen the dollar, and keep U. S. manufacturers competitive in the world market. At the same time, some foreign governments are discriminating against U. S. private investment while simultaneously demanding preferential treatment in our markets, and also requesting soft loans from U. S.-supported banks.
- II. The IADB Charter (Sec. 2-a-iii) stipulates loans should be made to "supplement private investment." The opposite is taking place: IADB loans are displacing private investments.
- 12. U. S. manufacturers should stop or delay shipments of small arms and ammunition to Chile. Last week the following shipment from Remington was flown out of Miami on ALFE:

75,000 - 38 44,000 - 22 50,000 - 32

This went to the Ministry of Interior, Departmento Abastamiento del Estado for the Secret Police.

- 13. Chile's recent travel restrictions are detrimental to U.S. trade. Chiletins are well known as one of the greatest travelers in Latin America. There should be some retaliation which could be imposed.
- 14. Chilean action against UPI should be blasted by the Inter American Press Association and U. S. press in general. (The Washinsten Post even criticized U. S. tough policy on Chile. They should be made to eat their contental now that UPI has been closed.)

"El Mercurio" of Santiago remains alive and continues criticism of Allende. Some aid should be considered for this paper.

4

- 15. In a meeting with Assistant Secretary of State Charles A.

 Meyer and his staff only a few days ago -- September 28 -- we were informed that up to \$1 million (U.S. dollars) are going into Chile each month from funds in the "Aid pipeline!" We believe this U.S. taxpayer money to the Marxist government should be terminated.
 - 16. Also, we were told that funds in several "Inter-American Development Bank pipelines," not previously utilized, were reallocated into a so-called earthquake emergency fund and made available to Chile. Considering the U. S. heavy contribution to the IADB, and the lack of a real emergency, such action should not have been permitted; and, if possible, should now be rescinded.
 - 17. It is noted that Chile's annual exports to the U. S. are valued at \$154 million (U.S. dollars). As many U. S. markets as possible should be closed to Chile. Likewise, any U. S. exports of special importance to Allende should be delayed or stopped.
- 18. The U. S. should consult with other governments whose nationals are suffering from the Chilean Marxists. This would include countries to which Chile owes money. Allende's treasury reserve is depleting rapidly and he has already suggested a moratorium on servicing his foreign dept.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

1707 L STREET, N. W.

WASHINGTON, D.C. 20034

WILLIAM R. MERRIAM
VICE PRESIDENT
DIRECTOR WASHINGTON BELATION

October 1, 1971

istim

The Honorable
Peter G. Peterson
Assistant to the President
for International Economic Affairs
Old Executive Office Building
Washington, D. C. 20500

Dear Pete:

When Mr. Geneen lunched with you a few weeks ago, he stated he feared ITT's seventy per cent owned Chilean Telephone Company (Chiltelco) would soon be expropriated. This has now happened! The take-over was on September 29, 1971.

As Mr. Geneen said, we anticipated this action and were attempting to delay or prevent it. However, during the past month, the Chilean government moved rapidly with its campaign of harrassment which went far beyond our anticipation. The following demoralizing incidents leading to expropriation took place during September:

Bank Accounts Frozen

In early September, Allende froze Chiltelco's bank funds, thus depriving ITT of existing operating cash and blocking the daily flow of customer payments to our accounts at the banks:

Records Confiscated

... A few days later, the Chilean Revenue Service entered Chiltelco's Santiago headquarters, confiscated

The Honorable
... Peterson

October 1, 1971 Page 2

records, and announced an immediate investigation of company accounts.

ITT Officials Jailed

Last Saturday, September 25, a sizeable group of special police surrounded the home of Senor Benjamin Holmes, the manager of Chiltelco. Aged 71, Mr. Holmes is a distinguished, highly respected and well-known native-born Chilean citizen. The police startled and arrested Holmes in his bedroom, then placed him in prison after a lengthy interrogation.

Senor Gonzalo Von Wersch, also a nativeborn Chilean who manages another of our companies --Guias y Publicidad -- which publishes yellow page 'directories -- also was arrested and jailed.

Dr. Fernando Eguiguren, our distinguished Chilean attorney, was taken into custody; as was Senor Leon Berstein, the manager of our telecommunication factory.

After considerable legal intervention, we were able to get three of the Chileans released on bail, but the government felt it must keep one of them under detention. Senor Von Wersch remains in jail.

The charge against the foregoing gentlemen is some trumped-up accusation termed "fraud against the government,"

Management and Legal Counsel Compromised

The forementioned terror tactics against our company officials is a well-known Communist ploy but

Peter G. Peterson

October 1, 197 Page 3

one not customarily experienced in Latin America. Chil actions badly damaged our interest and our chances of restitution. Not only have ITT officials been intimidated and the safety of their families jeopardized, but also our top management team and legal counsel have been placed in an untenable position. In any future negotiations or dealings with the Marxist-extremist government, our Clofficials naturally will be cautious, thus, their usefulnes will be limited.

Security of American Citizens Jeopardized

After these Chilean events, and because of a recent action against our visiting U. S. officials in anoi Latin American country, ITT will be hesitant about send into Chile any officials from its New York headquarters whether they be American citizens or other nationalitic.

It is inconceivable that the lack of protection to U. S. private enterprise in foreign lands has reached the stage where not only its properties are confiscated without just compensation, but also foreign citizens wor for American firms are unjustly intimidated and jailed propaganda hostages by a supposedly friendly nation with which the United States has diplomatic relations.

When events degenerate to a level where U. corporations must hesitate before sending American of into a supposedly friendly country for legitimate busine reasons then the situation calls for corrective measure We believe recent action in Chile demonstrates this low stage has been reached.

U. S. Ald Continues

While all of this action by the Marxist'governagainst U. S. firms is taking place, money derived from the U. S. taxpayers is still flowing into Chile in the for aid.

The Honorable

October I, 1971 Page 4

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Action Suggested

Besides curtailing the above-mentioned sources of aid to Chile, we believe the U. S. government should take every action which will bring President Allende's regime to the realization that his Marxist methods are incompatible with international practices, and inform him that he is to be held responsible for action against U. S. private enterprise.

It is noted that Chile's annual exports to the U.S. are valued at \$154 million (U.S. dollars). As many U.S. markets as possible should be closed to Chile. Likewise, any U.S. exports of special importance to Allende should be delayed or stopped.

The U. S. should consult with other governments which are being effected by Chile's Marxism. This would

The Honorable Peter G. Peterson October 1, 1971 Page 6

include countries to which Chile owes money. Allende's treasury reserve is depleting rapidly and he has already suggested a moratorium on servicing Chile's foreign debt.

There are numerous justifiable leverages which the U. S. government could use to counteract or retaliate in this instance. We believe these leverages should be utilized to the fullest.

Sincerely.

(original stoned by: W.R.M.

International Telephone and Telegraph (ITT) has owned and operated the Chilean Telephone Company (Chiltelco) for the past 44 years. The company is totally operated by Chilean management and personnel. Under the terms of ITT's concession contract, which does not expire until 1980, the company is permitted to fix such tariffs as would provide an annual return of 10% on the net investment plus 2% for general reserve. Throughout the years Chiltelco has continued to expand and improve and now is one of the most efficient telephone services in Latin America. As of December 31, 1970, ITT's investment in Chiltelco was approximately \$150 million dollars. Despite heavy expenditures and the fact the company was subjected to a total increase of 49% in wages and fringe benefits, the government refused a rate increase which would help bring company earnings to the 12% to which it is legally entitled.

Chile today has the first freely elected Marxist government in the Western hemisphere, under the Presidency of Salvador Allende. During the election campaign, Allende stated clearly his intent to fully nationalize the Chile Telephone Company (ITT owns 70%, the Chilean government 24%, and the public 6%).

After President Allende was elected, ITT officials met with him on March 10 to again request a justified rate increase and to determine the future of the Chilean Telephone Company. Faced with additional operating costs without the possibility of a rate increase, ITT offered to sell its 70% interest in the telephone company to Chile for immediate cash. President Allende said the buy out offer and rate structure would be studied by a commission which he was forming and that he would give his decision within 30 or 40 days. He also stated he did not plan to seize the company and that he considered the possibility of organizing a joint company with ITT.

After waiting 3 months, President Allende summoned the ITT officials and on May 26 announced his intention to nationalize the telephone company. At his request negotiations were started and ITT was hopeful a just and amicable settlement could be reached.

However, from the outset it was obvious obstacles were to be encountered. The ITT negotiators substantiated the \$150 million dollar book value of the telephone company, but Chile stated it does not deal in book value and reported it considers the worth of the company to be \$19 million dollars. It should be pointed out that the Overseas Private Investment Corporation (OPIC) was sufficiently impressed with the company's value to extend a \$105 million dollar investment guarantee to Chiltolco.

At this point in the negotiations, ITT offered to have the company evaluated by an outside independent appraisal firm. Before receiving a reply to this offer, Chile announced, to ITT's surprise, that the negotiations were terminated.

On September 2, the Chilean Government froze the bank accounts of Chiltelco. Essentially, this means the Government of Chile has brought ITT's Telephone Company to the verge of bankrupfcy. Following this hostile act, Chile, on September 13, sent 40 internal Revenue Agents into Chiltelco's Santiago headquarters, confiscated records, sealed them in a building and announced an investigation of the accounts would begin immediately. This action will result in further deliberate false charges to (1) justify the freezing of our bank accounts and, (2) warrant the expropriation of Chiltelco.

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System Comment

October 14, 1971

MEMORANDUM TO:

Mr. H. S. Geneen

RECEIVED

SUBJECT:

ANACONDA - CHILE

OCT 1 8 1971

F. J.

In reply to your request through Ned Gerrity I have talked to Bill Quigley, Vice Chairman of the Board of Anaconda, and he reports that they are taking actions in Washington as follows:

- They have enlisted Senators Mansfield and Bennett and several
 of the Congressmen representing several of the Western States
 to push in several of the Committees--Foreign Relations, Finance-to demand that the U.S. government take a positive stand on
 the expropriations in Chile.
- In the last few weeks they have visited, and plan to return next week to visit, Peterson and Kissinger at the White House, the National Security Council, and many Congressmen and brief them on the exposure in Chile.
- 3. They have got Mansfield assisting them in attempting to press for a favorable tax ruling from IRS to take the Chilean loss as an ordinary loss rather than a capital loss. I understand that the mining industry group have such a bill prepared for sometime but it has not as yet been acted on.
- 4. Quigley demanded a meeting yesterday with representatives of the Department of State and OPIC to attempt to get them to take a position on the U.S. stand in Chile. The State Department and OPIC have been telling Anaconda that they should file an appeal under the Chilean Copper Legislation which would require an expenditure for a Stamp Tax of from \$2.0 to \$3.0 million to file. Quigley feels this is just more money down the drain and he is trying to lorce State and OPIC to act. The appeal will probably take a minimum of 18 to 24 months. State can just low key it again as they did on the IPC case in Peru which after over three years has still not been solved.

Second point in the meeting was OPIC's statement of Tuesday to the effect that Anacona had no insurance. While this is not new Bill Quigley tells me that he got deluged with stockholder

System Confidential

Mr. H. S. Geneen .

- 2 - ~

October 14, 1971

calls and requests for information on the situation. OPIC President, Brad Mills, denied issuing the statement but Bill Quigley said that later the Counsel for OPIC and the public relations man did admit they did issue the release.

5. He also told me that they are considering going to the Foreign Claims Settlement Commission which acts at the request of the President and filing their claims there for a matter of record if they have any opportunity to press their case in the International Courts.

He confirmed that they are going to continue to push through the Senators to get them to act in behalf of copper and he understands that Kennecott is also moving somewhat along the same lines but separately. Evidently both companies don't feel they can act together because of Justice Department problems. Quigley is instructing his Washington man, Ralph Meechan, to work closely with Bill Merriam and they will pass on the activities of each company to each other.

An interesting point that I checked out with Quigley was the Cerro deal which will net them under the ruling \$14 million to \$18 million. As you will recall about three months ago Ambassador Korry said Cerro had negotiated an agreement with the Chilean government which would give Cerro a total of \$56 million split \$18 million for equity, \$18 million for debt and the balance paid as interest during the pay-out period. President Allende never signed this agreement as he had serious internal problems with his Cabinet and it looks like Cerro have lost a substantial part of what they thought they had previously agreed to.

Bill Quigley said he would call me on his return from Washington towards the middle of next week.

cc: Messrs. Dunleavy, Gerrity, Aibel, Merriam, Goldman, Hendrix

System Confidential

Mr. F.J. Dunleavy

October 14, 1971

E. J. Gerrity

Statement on Chile by Secretary Regars

Attached is a copy of the statement Secretary Rogers issued late yesterday concerning the situation in Chilo. It was based on the action of the Comptroller General of Chite and his findings that no compensation would be paid for U.S. copper mining investments that have been expropriated except for the small amounts involving two smaller properties. The statement mays that the U.S. is disappointed at the serious departure from according translational law.

A story based on the Secretary's statement appears on Fage 1 of this morning's Times and a copy is attached. The statement was strongly urged on State by various agencies in the government. To some it was not strong enough in its final form, to others it was too strong.

H.S. Gencen

cc: Mesers. H.J. Aibel

R. 2. Bonnett

C. Goldman

J. Guilfoyle

H. Hendrix

OCTOBER 13, 1971

STATEMENT BY THE SECRETARY OF STATE

The Controller General of Chile announced his findings on October 11 that no compensation would be paid for the U.S. copper mining investments expropriated on July 16 except for modest amounts in the cases of two smaller properties.

The United States Government is deeply disappointed and disturbed at this serious departure from accepted standards of international law. Under established principles of international law, the expropriation must be accompanied by reasonable provision for payment of just compensation. The United States had made clear to the Government of Chile its hope that a solution could be found on a reasonable and pragmatic basis consistent with international law.

It appears that the major factor in the Controller General's decision with respect to the larger producers was the determination on September 28 of alleged "excess profits". The unprecedented retroactive application of the excess profits concept, which was not obligatory under the expropriation legislation adopted by the Chilean Congress, is particularly disquieting. The U.S. companies which are affected by this determination of the Chilean Government carned their prefits in Chile in accordance with Chilean law and under specific contractual agreements made directly with the Government of Chile. The excess profits deductions punish the companies today for acts that were legal and approved by the Government of Chile at the time. No claim is being made that those excess profits deductions are based on violations of Chilean law. This retroactive determination has serious implications for the rule of law.

Should Chile fail to meet its international obligations, it could jeopardize flows of private funds and crode the base of support for foreign - assistance, with possible adverse effects on other developing countries. The course of action which the Chilean Government appears to have chosen, therefore, could have an adverse effect on the international development process.

The United States hopes that the Government of Chile, in accordance with its obligations under international law, will give further careful consideration to this matter.



Corporato Rolationo

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Assails Flan to Hationalize U.S. Copper Interests Without Compensation

BY DENIAMIN WILLES spendie Tie Sie Tie Heit in WASHINGTON, C t. 13-Sec-retary cf State Villiam P. Rogers shaply reproved Chile today for what he termed a "serious departure from accepted standards of internaai iaw."

dr. Rogers cited Chile's ennouncement Monday that the would pay no compensation for the United States copper interests she le expropriatingexcept for modest amounts in case of two smaller properties.

The Secretary warned in a statement that this action might jeoperdize the flow of private investment funds to Chile. It might also crode the base of support for foreign ald for Chile and other developing countries, he said.

Mesawhite, Latin - American diplomatic sources said that the Government of Dr. Salvador Continued on Page 15, Column 1 Allende Gossens, a a Marxist, would assume the foreign debts of the United States com-garies being taken over. These echts are said to smount to \$300-million plus \$220-million in interest

in interest.

The sources, who declined to be identified but who are inferred on developments in Chile, said that Chile solid that Chile solid that Chile solid that Chile solid the Experi-Import Earls, 59-million to the Kennecott Corporation and S100-million the major New York City Itenancial institutions. — Chase Manhatten Earls, Manufactur-

nive major new york City financial maintain maintains. — Chase Manhatten Bank, Manufacturers Hannever Trust, Chemical Trust Company, First National City Bank and the Morgan Couranty Treet Company, Other foreign Crbis that the Chilean Government intends to assume and repay, these sources said, include \$50-million to the Banca Commercial Italiana, \$15-million to the Cetto Coupacition, \$15 million to the Spance Million (on the Japance Million googland \$17-million to the Sumitomo group of Japan, Including some smaller obligations, they said, the total approaches \$550-million.

million.
With accumulated interest, they added, the over-all obligation may execut \$770-million. These does, informants here

sion may execus arromanda. These debts, informants here said, are to be repaid in the currencies in which they were made and over the period of the oriental debt. It is passible but unlikely, they said, that the Allende Government will seek to reschedule debt repayment. The Rogert statement, they a State Dispriment spokesman at a news bridge, was more mortisate than many presons in high levels of povernment reporteely had been uning it was, namelibeles, the most critical so far in a prince of deterior ting relations between the United States and Child.

Chile. Government. The Allerde Government, elected II meetics go with a third of the radical value, has pursued a strendly knist commonle policy and has amended the Constitution so as to evisionistic Unit Street Constitution of the constitution Allegale int thats a month about the built a tree to a tree to a

on Sopt 28, President Al-lands announced that the "cur cess points" of the United States copier companies to-tated STA-matten.

On Oct. 6. Foreign Minister-Clodoulire Almeyds had a long-private conversation in the Chif-ean Embassy here with Henry-A. Kissinger, President Nivoa's assistant for national security affairs. The next day Mr. Al-meyda Finted at a news con-ference here that Chie might deduct only almost 500-million for \$100-million in "excess prof-its" from future compansations because, he soft time the tested tis" from future compensations because, he said, the United States companies were co-owners of the mines with the Chilean Government and not the sole ounces

sole owners.

Mr. Almeyda's private talk with Mr. Rissinger and the conciliatory tone of his news conference the next day led to hopes here that there might atill be a chance of an agreed solution with Chile over fair compensation to the copper companie. companies.

But two days ago, Hector Humeres, Chile's Controller General, dashed such experimtions here by virtually ruling out any meaningful compensa-

ion. In his statement, Secretary, Rogers noted that the determination of excess profits in the copper company cases was root obligatory. In Chile's expropriation laws. He said that "the U.S. companies earned their profits in Chile within Chilen law and under specific contractual arrangements made directly with receding Chilenn towerments. He stressed that Chile was not contending that such profits were based on "violations of Chilenn law."

Chile Deplores "Pressure" ANTIAGO, Chile, Oct. 13 (UPI)—Foreign Minister Almeyda accosed Mr. Boarrs today of exercising "veiled pressure" against Chile because of her refusal to pay for the copper processes.

projectics.

In a mationwile radio address, he criticized the Rogers statement for not mentioning that Caile had assumed \$700-million in celets owed by the expressived energials.

sequences for Chile and similar effices in foreign aid since that constitutes veiled pressure over our country which we can do nothing by: then reject."

tana makaba man

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OCTOBER 13, 1971

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The Controller General of Child announced his findings on October 11 that no composition would be paid for the U.S. coppor mining investments expropriated on July 16 except for modest amounts in the cases of two smaller properties.

The United States Government is deeply disappointed and disturbed at this serious departure from accepted standards of international law. Under established principles of international law, the expropriation must be accompanied by trasonable provision for payment of just compensation. The United States had made clear to the Government of Chile its hope that a solution could be found on a reasonable and pragmetic basis consistent with international law.

It appears that the major factor in the Controller General's decision with respect to the larger producers was the determination on September 28 of alleged "excess profits". The unprecedented retronctive application of the excess profits concept, which was not ebligatory under the expropriation regulariton adopted by the Chilean Congress, is particularly disquieting. The U.S. companies which are affected by this determination of the Chilean Covernment earned their profits in Chile in accordance with "hillan law and under specific contractual agreements made directly with the Covernment of Chile. The excess profits deductions punish the companies today for acts that were legal and approved by the Government of thile at the time. No claim is being made that those excess profits deductions are based on violations of Chilean law. This retroactive determination has serious implications for the rule of law.

Should Chile fail to meet its international obligations, it could jeopardize flows of private funds and erode the base of support for foreign assistance, with assible adverse effects on other developing countries. The course of action which the chileum Government appears to have chosen, therefore, could have an adverse effect on the international development process.

The United States hopes that the Government of Chile, in accordance with its obligations under international law, will give further careful consideration to this matter.

Tal. (212) 752-6000 Chile

would appreciate any comments.

- 6) Since Ambaroador Davis has gone to Santiago, I talked to Ben Wellesof the New York Times about the Kinsinger meeting at the Chilean Embassy. Wells, who was present at the Embassy, tells me that ITT was not mentioned at that meeting and this is in line with the overall Admistration policy of trying to crack the copper case with the belief that the rost will fall in place. Wells reiterated the fact that Kissinger was smiling after the meeting, giving the impression that things were going to be better. Ben said that he was visibly shocked the next morning when he attended a press conference at the Chilean Embassy which threw out all of the Prime Minister's "good news."
- 7) The total value of Chile's exports to the U. S. is \$154,000,000. 35 compared with \$1,069,000,000 worldwide. Eighty-three percent of these exports to the U. S. are affected by the 10% surfax. As a matter of interest. U. S. exports to Chile suring the first ten meaths of 1969 were \$279 multion. This represents about 30 percent of Chile's imports. No Aid has been approved for Chile recently. I will get exact figures temorrow. There is about \$1 million a month-not a day-- in the pipaline to Chile.
- -8)-I have the Treaty of Rome, but since it is 350 pages long, it is going to be difficult to find the answers to your two questions.

 However, we are reading.
- 9) Since Chile does not grow sugar, the new Sugar Bill is of no help.
- -10)-We have fed to Goldon-the feeling that the SEG-appears to-baducking the need-to-take hold of the APD properties.
 - 11) Your-Furo-dollar-questions-have been answored-by a separate memo...

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E. J. GERRITY

October 15, 1971

MEMORANDUM FOR RECORD

SUBJECT: CHILE - STATE DEPARTMENT VISIT, SEPTEMBER 28, 1971

On September 28, as a result of John Crimmins', Acting Assistant Secretary for Inter-American Affairs, letter I visited his offices along with Jack Neal of the Washington Office.

Present at the meeting for the State Department was: Charles Meyer, Assistant Secretary of State for Latin America; John Crimmins, Deputy; Ambassador Designate to Chile, Davis and John Fisher, Andean Block Desk.

I reviewed with them full details of the published intervention of September 23 by the government of Chile and briefly described the background of our fruitless negotiations over the past several months.

I then asked what was the State Department's policy towards Chile? Were they going to act in behalf of U.S. investment which is being expropriated? Charles Meyer responded that there was as yet no published policy; that the whole matter of Chilean relationships and expropriations of American investments was under review. He emphasized the action the Exim Bank had taken in turning down the financing of the three aircraft for Lan Chile. I queried them on what they were doing regarding future AID and Inter-American Bank development loans. From the type of reply, which was vague, it is clear that the State Department will continue to operate on the basis of each case is different and each one will be treated individually. It is also clear that the pressure that Secretary of the Treasury Connally is placing on them is being felt.

In discussing the lack of published policy and/or action by the State Department, . I suggested that they should consider an embargo of Chilean copper until this matter of expropriations was clarified. The response was it would have to be discussed with the Organization of American States and could lead to a bitter and heated debate which the State Department did not favor at this time. There was also the comment that this could well be considered an act of declaring war. While there is We then discussed not much logic to this, this is the State Department's reaction. in considerable detail the arrest of Bennie Holmes and our other three people. I'indicated that Ambassador Korry had interceded in their behalf but that the State Department's hands were tied because they were Chilean. They were not responsive to the fact that they did represent American companies. They finally agreed that they would have Secretary Regers raise the issue with the Chilean Foreign Minister, Clodomiro Almeyda, during the New York meetings taking place with the opening of the U.N. session.

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The one, if any, benefit from the meeting was the further opportunity to get our points across to the new Ambassador to Chile who is due to arrive in Santiago in mid October.

J. W. Gullfoyle

System Confidential

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PUBLIC RELATIONS DEPARTMENT

10/20/71

EJG -

Herewith a revised version of the Chile White Paper, plus a supplemental essay on ITT WORLDCOM.

10/2: input

HAL HENDRIX

CHILE: TOPICS FOR DISCUSSION WITH SECRETARY ROGERS

1. Chile Telephone Company---Chiltelco has a book value of approximately \$153 million. This amount has been confirmed by a Concession Contract in effect since 1930 with the Government of Chile, and by a Decree Law approved by the government. For 38 years the company's financial statements have been audited by an independent auditing firm and approved by the Chilean Ministry of Finance.

Chiltelco was intervened by the Government of Chile September 29 and a government-appointed interventor took over control of management of the company. The intervention followed almost five months of fruitless negotiations with representatives of the Chilean government.

During these talks, started at the request of President Allende,

Chiltelco's bank accounts were embargoed, its financial records were seized and the company was subjected to steady harassment in the government-controlled press and by labor unions.

As recently as October 14, the government interventor at

Chilteleo told workers at a staff meeting that the "nationalization process
for the Chile Telephone Company is irroversible and the government

will take over the company either by negotiation or by a special

nationalization law."

2. <u>Carerra Hotel-San Cristobal Hotel---</u>These two hotels represent an investment of \$7.7 million. Until about 60 days ago, the hotels have experienced continuing union difficulties since Allende took office.

A representative of the Ministry of Labor has been reviewing the Hotel

Carrera books for more than three months and recently has broadened his

investigation into inter and intra company actions. The Ministry of Labor has indicated an interest in acquiring the Carerra for additional office space but has deferred action until after a United National conference in Santiago next May.

Workers at the Hotel San Cristobal have been agitating since Allende took
office for the government to nationalize the hotel for the workers.

3. ITT World Communications --- ITT World Communications, Inc., has assets in Chile, the book value of which is \$3 million. It has negotiated a buy-out with ENTEL (the governmental international communications entity). To date, however, ENTEL has purchased only about ten (10%) percent of the company and there are indications that ENTEL is taking no action to carry out the government purchase agreement.

Since the intervention of Chilteleo, there have been strong indications that the union workers are being directed to create difficulties within the company, which will lead to either intervention or confiscation. Also, there have been several incidents of mishandling or late delivery of important messages between ITT-New York and the Government of Chile and between ITT companies. Further, ENTEL is exerting pressure on ITT Worldcom to lease more satellite channels from the government-owned satellite stations than ITT Worldcom requires.

In addition to ITT Worldcom, ITT owns AAC&R-Chile, another international communications company in Chile. Its assets are \$600,000. This company handles international telegrams only.

4. <u>Standard Electric-Chile---</u>The telecommunications factory represents an investment of approximately \$2.2 million. It operates in support of the Chile Telephone Company and is dependent upon it for all funding for pay roll and purchase of necessary supplies. It also handles CORFO (Chilean government development agency) owned piece parts and frames on an added value basis.

The factory is continuing to experience extreme difficulty in meeting weekly pay rolls as it now is being spoon-fed escudos from the Chilean interventor. The current estimate is that there will be a cash shortfall of about \$500,000 by the end of 1971 unless the interventor increases payments to the factory. Accounts receivable from the Chile Telephone Company are in excess of cash requirements.

5. ITT World Directories --- The ITTWD subsidiary in Chile.

Guias y Publicidad, was intervened by the government of Chile last

May 15, following an artificial labor dispute. The general manager

and comptroller were summarily discharged and no direct information
on activities within the company has been available since that date.

On September 25, Benjamin W. Holmes, general manager of the Chile Telephone Company; Gonzalo Van Wersch, general manager of Guias y Publicidad; Leon Bernstein, comptroller for Guis y Publicidad, and Fernando Eguiguren, general counsel for Chillelco, all Chilean citizens, were arrested by the government under the guise of an

CHILE -- page tour

Oct. 19, 1971

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alleged illegal contract between the Chile Telephone Company and Guis y Publicidad. Trial still is pending for Holmes, Eguiguren and Van Wersch. No trial date has been set. Bernstein has been released on orders of the judge hearing the investigation.

6. OPIC---ITT filed a claim with OPIC on September 29 on its insurance coverage for the Chile Telephone Company. The State Department and OPIC were briefed fully on all the actions in Chile that led to filing of the claim.

. The claim was filed on the premise that expropriation occurred when the government refused to act on a rate increase application early last spring, or on May 26, when President Allende notified ITT that he was nationalizing the company.

The news release issued by OPIC states that approximately
\$108.5 million of ITT's \$153 million investment in Chiltelco is
insured by OPIC. It further stated that since 1965 ITT has paid OPIC
about \$4.5 million in premiums for protection against expropriation.

CHILE -- page five

Oct. 19, 1971

Possible State Department Action

- Exercise the United States voto in the Inter-American
 Development Bank with respect to several pending Chile Loan
 applications with the bank.
- Through use of U.S. veto or pressure, shut off any pending or future World Bank loans to Chile.
- Continue the refusal of the U.S. Export-Import Bank to grant any loans to Chile.
- 4. Indicate the State Department's strong displeasure with Chile's flagrant disregard for norms of international law in nationalization without adequate compensation and urge the U.S. banking community to refrain from extending any further credits to Chile. If possible, extend this to international banking circles.
- Halt all AID projects that are still in the government pipe line.
- 6. Embarge imports from Chile into the United States.

 (Value of Chile exports to the U.S. now is about \$154 million.)
- 7. Enlist the support of Chile's neighbors, particularly
 Argentina, Brazil and Peru (and possibly Bolivia with its new
 rightist government) to protest in international forums about the
 reported offer of arms credits to Chile by the Soviet Union, perhaps
 as much as \$50 million worth.

1TT World Communications' Situation in Latin America

Regarding South America as a whole, ITT has been forced to close its international communications operations in Argentina and Brazil and forced into a hous position in Feru due to the government's establishment of satellite earth stations. In each case the government was aided, abetted and encouraged by COMSAT to proceed along those lines--starting with the initial visits by COMSAT to encourage the governments to join INTELSAT and through subsequent visits when COMSAT representatives provided the governments with estimated profit statements (which were exaggerated in some cases in the extreme).

At no time did COMSAT recognize the existing carriers as the authorized entities to furnish international communications, although in each country ITT had submitted propusals to establish satellite earth stations, either separately or in partnership with each government.

In these actions COMSAT was given an aura of representing the U.S.

80 vernment. The local U.S. Embassies arranged appointments with appropriate government officials and furnished COMSAT representatives with Embassy transportation. At no time, to our knowledge, did the U.S. State Department try to dissuade COMSAT from its chosen course, i.e., to put the existing U.S. international carriers out of business, even though starting in 1964 we tried to diamade COMSAT from this course of action. Our pleadings with U.S. State Department were to no avail.

In 1968, our profits, after tax, from international operations in South
America were \$3 million. In 1972, they would have been in excess of \$5 million.

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However, they now are estimated to be \$250,000 in 1972, and with the high risk in Chile and Bolivia, the figure might be zero. The gold flow consequences of the above are obvious. In the meantime, we are required to write off about \$12 million in assets as a result of being put out of business.

Lastly Panama. An article appearing in the October 19 issue of the New York Times causes us grave concern regarding our assets in the Canal Zone. In 1963, we activated a submarine cable, in partnership with ATT, from the U.S. to the Zone, primarily for defense purposes and operational purposes for the Canal. In addition, we informed the government of Panama the cable would be available to the government of Panama to provide the highest quality of international telephone service for use by its government, citizens and businesses.

Mr. Marco Robles, then a government Minister, later President, acknowledged and concurred in this arrangment. Currently, the cable is providing leased channels to the U.S. government's telephone service for those in the Zone, and, in competition with a Panamian owned satellite ground station, telephone service to the people of the Republic of Panama. It would be in the highest interest of these Panamanians to put us out of business, or to so reduce our after-tax income (as Peru has done) that our position becomes economically untenable.

Our assets in the Zone total

our after-tax income,

The Times article would indicate that industry in the Canal Zone may be placed completely under the mantle of the Panemanian government. An example

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of what this can mean took place recently with United Fruit in Panama.

About 7,000 workers went on strike. They were out ten days. The

Panamanian Court ruled the strike illegal, which meant United Fruit

would not be required to pay the workers while on strike. President

Torejos heard the ruling, called the judge and the ruling was reversed.

MEMORANDUM FOR THE FILES

Secretary Rogers opened the meeting by saying that he and the President had grave concern over the Chilean situation and the expropriations that were taking place, and that he felt his statement of last week indicated the concerns of the U. S. Government. He stated there appeared to be little leverage that the Government could use against Chile, but that they would take all actions open to them. He discussed his meetings with Foreign Minister Almeda of Chile during the opening of the U.N. He stated he had never been more rude to any other diplomat. Rogers said he attempted to press Almeda to stop the copper expropriations and filing for excess profits and taxes. Almeda is reported to have discussed this with Allende on his return to Chile. Nothing happened. He then asked each company to describe its situation.

Ford indicated they had pulled out, written off \$16 million, and received \$900,000 from OPIC. Ford has been asked to continue to supply spare parts to Chile. They indicated they will with firm letters of credit on reputable banks. Ed Mollena(sp) pressed that there is a domino effect through Latin America as a result of Chile and urged a strong-line U.S. policy.

Anaconda urged a strong line both publicly from the U. S. Government representatives and to make an attempt to apply pressure privately through third parties in both Latin America and Chile.

Secretary Rogers asked Anaconda whether he should file his appeal thinking that it might be easier just to let the expropriation stand so that

Hickenlooper could be envoked. Quigley of Anaconda replied that he had an obligation to his OPIC coverage which is in dispute and also an obligation to his shareholders, and he is going to file the briefest appeal to minimize the \$3 million stamp tax,

Bank of America - they have sold out but have a large exposure in both the public and private sectors. They have cut off lines of credit.

First National City Bank - Are in negotiations and thought they had an agreement on two occasions. Both have failed. Sharply curtailing lines of credit but have about \$60 million outstanding.

Raiston - they have been intervened, have an agreement in principle not implemented. Their representative was more of a "dove" recommending
we not cut off shipments to Chile but should use private sources to impress

Allende and his government to stay in the Western bloc.

Rogers apparently was trying to show the blue chip companies expropriated in Chile that the State Department was concerned, had tried to do what they could but had little or no leverage. Meyers continued to inject that they had 23 other partners in OAS if the U. S. attempted any unusual sanctions.

ITT pressed that State should curtail IADB loans. Secretary Meyers did not respond but Rogers reported that America does not have veto power on loans.

The Secretary raised the question of whether there should be an informal embargo on spare parts and materials being shipped to Chile. The consensus of the group was quite mixed. Rogers recommended that there be periodic meetings of the group to attempt to solidify a position.

His only positive statements were:

- 1) If the copper companies' appeals are denied, the Government should and would invoke Hickenlooper; and
- the Government will periodically speak out against the action. He did recognize the domino effect.

He indicated that he had talked with the Russian Foreign Minister as to whether or not Moscow was going to finance Chile as it had Cuba. The Russian denied any such intention. Rogers went on to show grave concern of Russian domination in Latin America and its impact.

As a result of discussions of domino effects early in the meeting, ITT

World Com pointed out how actions on the part of one government will rub off
on another and this same thing was expressed by the Ford representative.

The World Com spokesman pointed out that he represented the international
communications division of ITT and as a result of the advent of satellite
ground stations in South America, ITT had been forced out of business in

Argentina and Brazil, forced into an uneconomic position in Peru, and for
this they hold Comsat expressly responsible because of their dealings with these
countries and influencing them toward government ownership of satellite ground
station facilities. Peru represents a special case in that by decree ITT is
forced to discontinue our existing international communication links to all
countries owning ground stations. The decree stated specifically that only
satellite channels would be used to those countries. Peru gave ITT the opportunity
to rent satellite channels which we did at a rate of \$60,000 per year per channel
as compared to \$45,000 per year for similar channels from the U.S.

Beginning January 1 this year, they raised the price from \$60,000 per channel to \$264,000 per channel forcing ITT into a position where they have now offered to sell out. The same thing will happen in Panama and ITT is alarmed by the article which appeared in this week's New York Times that would indicate that they are giving the show away. The World Com representative went on to say that he was concerned specifically with turning their international communications out of the Canal Zone. These communications are provided by submarine cable and valued in excess of \$8 million?). The Board of Directors of the Panama ground station are all Panamanians and their one aim would be to force ITT out of cable business and require that all international communications go by satellite. This can be done easily by using the Peruvian method and by simply passing a decree.

Secretary Rogers then asked Meyers to check in on this aspect of the negotiations and let me know where we stand."

When the ITT spokesman stressed the need to take a firm position with IADB and the World Bank in channeling loans to Chile, Secretary Rogers asked for his impression of the impact of the recent Export-Import Bank refusal to finance the aircraft. He replied that he thought they made political hay in the Chilean newspapers and personally had had comments from Vuskovic and Garreton and that they were concerned over the action as it was forcing them to explain in certain quarters the deteriorating relationship and the financial impact on Chile. The view that the Ex-Im loan refusal was helpful to U. S. position was shared by two or three and was "questionable" on the part of the others. The bankers take the position that there should be no publicity, just to not approve the loan and let it slide along.

In summary the entire meeting indicates that the Secretary is pretty much going along with the Meyers and company soft-line, low profile policy for Latin America.

Both of our spokesmen agree the State Department's Latin-American policy is actually not concerned with today, but is motivated by its fears of what might happen rather than to take actions which would preserve investment and normal relations today.

Secretary Rogers in opening and two or three times during the hour and forty-five minutes continued to state that the Nixon Administration was a "business Administration" in favor of business and its mission was to protect business.

Attendees of meeting with Secretary of State - - 10-21-71

Secretary Rogers

Assistant Secretary Meyers

Political officer for Chile

Ford Motor Company representative (Ed Mollena) sp

The Anaconda Company (Bill Quigley)

Bank of America (Bill Boland)sp

First National City Bank (Cimble)?

Raiston Purina

ITT Corporation - Jack Guilfoyle and J. R. McNitt

October 29, 1971

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lar. F. I. Danleavy

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Political

The political citation in Caste is being strongly influenced by the current economic profiles of the Country. As we have been reporting for some time, and an applical out in today's article in <u>The Row York Times</u> the internal problems of food choologic and the lack of hard currency to import feods is becoming a major serve. It is clear that the covernment is unable to maintain control of the local economy as a result of land year's wage increase of about 50 per cent and a price freeze. The government-run entities are having production short falls which are resulting in critical shortages and it is apparent that government mismanegement is beginning to be recognized.

Chiltalco

At the request of the Interventor meetings were held this week with the foreign banks who have outstending credits to Chiltelco. They had asked for five year extension with two years grace. In the meeting Wednesday, the Bank of America, Philadelphia National and Westminster indicated that with a hamediate downpayment and past-due interest paid they might agree to an extension of two years. This would be subject to presentation of a five year projection of cash flow which would indicate the viability of Chiltelco under the current intervened management being able to meet their commitments. The Chilcan representative, the General Manager of Corfo, and Mike Caram of Chiltelco have returned to Santiago to review this with the Interventor and Central Bank.

Manufacturers Hanever and Irving Trust have outstanding loans (both have guarantee) of Chilean banks) and advised the representatives in a separate meeting from the one indicated above that they would continue their discussions with the Chilean banks.

U.S. Ambassador Davis, Saturday evening last, was advised by Foreign Minister Almeida of Chile he thought it was opportune that now was the time for ITT to return to resume discussions. He suggested that the Ambassador talk to Garreton and then advise ITT that they should return for negotiations. This was reported to us through OPIC. Our position has been that we must have a firm agreement in which with Chile statung:

Mr. F. J. Dunleavy

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October 29, 1971

- 1. We have been expropriated,
- The \$92 million to \$94 million will be paid; that the expropriation date will be defined, and that a stipulation on co-insurance, if there is an agreement, has been agreed to.

The Legal Department are conducting discussions with OPIC along this line oil this week and they should continue next week.

Our position in resuming negotiations is after agreement with OPIG and a clear understanding from the CCC we will reduce discussions at the ministerial level with all head rights maintained and preserved. In turn, we are going to make it known that was must have instantly for those Chileans who are participating in the discussions in behalf of ITT.

Mike Caram, in his visit, reported that there are continued discussions going on in the Telephone Company to iniciate a rate increase of about 20 per cent sometime in Kovember. The Interventer and the newly eppointed senior representatives in the Company are for it. They are being strongly opposed by the UP representatives of the workers in the various unions.

The Chilteleo engineering group are preparing a two year forecast of spare parts requirements which they plan to order from Europe and are planning to pay cash. Dackground to they are concerned ITT may out them off from their supplies.

There is also under discussion a review of a plan for the 1972-1973 expansion. They are talking of 40,000 lines in 1972 and 74,000 lines in 1973. They will be contacting, through Corfo, France and Spain for extended credits. Dan Gillen, at the factory, has had some preliminary discussions regarding requirements for the 1973 program and has emphasized his need for continued cash payment to maintain the factory on a workable, current basis.

They have borrowed \$22 million escudos from the Central Bank with which they paid Datel and now have a loan request in for \$100 million to \$150 million escude (\$8 million to \$12 million at banker's rate) for purposes of paying past-due income tax and to have local currency available for the 1972 program. Caram's feeling is that the Interventor will have little or no trouble obtaining escudo loans, but indications are that the Central Bank is curtailing for at least two years all forcic bank loans and/or credits.

Holmes, VanWersch, Eguiguren Law Suit

Our outside counsel from Santiago was in New York this week. He reports that he expects that the case against Holmes and the others will go to trial during the week of November 15. At in quite optimizing hand on comment, from the Judge who will try the case that he can see working of substance in the charges.

Mr. F. J. Dunleavy

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October 29, 1971

The judge, however, has indicated that this is a sensitive case since it was presented by the Country's Defense Counsel, Royce.

1. M. Caillorle

cc: Mossrs, Concen, Beanett, Dunleavy, Bateson, Coldman, Hamilton, Connery, Stimson

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John M. Hennessy, Esquire November 9, 1971 Deputy Assistant Secretary for Development Finance Jack D. Neal

Chile

I sent you information about the Chileans coming to New York to roll-over Chile Telephone Company's (Chiltelco) debts to U. S. banks. They were here and if you didn't hear the outcome, it is summarized herewith.

The U. S. banks were firm. They demanded current amounts due before agreeing to discuss roll-overs. Too, partial payment of principal was also specified.

The banks want Chiltelco's cash flow as envisioned by the Chileans themselves — not ITT. This information must include proposed expansion program, telephone rate increases, etc.

One interesting point brought out was that Chile, admittedly, is hurting for U. S. dollars. Chilean Escudos are no problem, but Chile has received "no dollar credits since September."

The Chilean negotiators said Chile needs new loans and without extension of credits the country has no facility to service external loans. The external debt is presently estimated at \$2.5 billion U. S. — the major portion of which is due within two years!

The Childrens said Chiltelco, in the future, would be operated as "self-sustaining" and that most likely "it would not be required to produce revenues" to be included in the Children budget! This did not make a favorable impression on the brokers.

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Washington Office

1707 L Street, N.W.
Weshington, D.C. 20036
Tel. (202) 296-6000

Mr. W. R. Merriam

Date: November 30, 1971

From: J. D. Neal

Selject Chile - Question of Embargo of Chilean Funds in the U. S.

In 1917, the U. S. Congress enacted a law which is commonly known as the "Trading with the Enemy Act" (12 USC 95a). This provides that, during the time of a national emergency, the President has extremely broad powers over foreign funds, assets, etc., within the United States. In 1950, at the time of the Korean War, President Truman proclaimed a state of national emergency. This has never been revoked and, thus, the current President is free to do almost anything he desires regarding Chilean assets in the United States.

If action is taken against Chile, the reasoning might be the same as used in the Cuban crisis; that is, Allende purportedly is exporting his revolution to other countries, or some such charge.

Undesirable Features of Such Action

Chile owes large sums to the Export-Import Bank and U. S. private banks. If the Administration takes action, these loans would be in jeopardy. U. S. officials are now considering the terms for a "roll-over" or "stretch-out" of Chile's debts.

Considering the present Hemisphere situation; the Administration's soft Latin American policy; and the possible monetary loss to the U. S., It is highly unlikely Nixon would authorize an embargo.

ITT's Interest

Before seeking an ITT position favoring embargo, it would appear is appropriate to determine how our own interests would be affected; debt to ITT; status of Sheraton Hotels; AAC&R; World Communications; etc. For example, iTT currently is receiving revenues from its overseas telephone operations in Chile (which communicates with AT&T in the U.S.)

bc: E. Dunnett

TITI LATIN AMERICA INO.

PARMIENTO DOS - BUENOS AMES - RAGENTA

TO

Mr. N. Theofel

R. Berrellez - ITTLA

NOM K. Belletiez HILA

DATE December 2, 1971

WHEN REPLYING. PLEASE QUOTE FILE

PRIVATE

The information on Chile is largely second hand because I've not been on the scene in two weeks. Most of it comes from the news agencies. Some of it (marked +) is from the most reliablest of intelligence sources here.

- Fidel Castro's prolonged visit to Chile has produced, in recent days, some strong criticism among opposition congressmen, one of whom has formally requested that the Cuban dictator be asked to terminate his stay. Castro is near the end of his visit, now in its 21st, day.
- 2. Victor Carmine, deputy of the National Party (conservative) introduced a motion in the chamber of deputies charging that Castro had intervened in the nation's internal affairs during his visit. The motion which termed Castro's interference as "unacceptable", asked that the president "in fulfillment of the protection of the honor, security and independence of the nation put an end to the visit of a chief of foreign state who is gravely attempting against said essential values."
- Marino Penna, of the Christian Democrats, also protested in the chamber that Castro's presence in the copper shipping port of Antofagasta had caused a suspension of dock loading activities for 18 hours, resulting in a loading loss of more than 300,000 tons.
- 4. Castro's visit to Valparaiso, Allende's home town which has been hostile to him in the past, was curtailed without official explanation. Heavy security precautions had been taken for the visit. Despite these, unidentified persons stoned the president's car, which was in the Castro caravan. There was no serious damage or casualties.
- 5. Castro spoke for 80 minutes in Valparaiso and in an obvious riposte to the rising tide of criticism of his visit, said: "the most we've done is answer some questions of workers and students because you did not invite a mute or a boob."

- 6. Leftwing extremists attacked a demonstration by Chilean women last night in Santiago who were protesting the continuing violence in state universities and the shortage of some food items in the city. The women's anti-Allende group was attacked by members of the Castro-Maoist MIR (Leftist Revolutionary Movement) whose activities have been censured publicly by the president. Controlled by non-Marxists who won the last elections, the National University has been the scene of turbulence in recent weeks due to maneuvers by the Allende leftist front (UP) activitists to seize control. They physically took over at least one faculty recently.
- 7. The chamber of deputies, meantime, approved a motion requesting the president to put an end to the government campaign to seize control of a large privately owned paper and cardboard company through the purchase of privately held shares. The motion alleges that government control endangers freedom of the press. The government has been successful so far in buying up shares in small lots but the large bloc owners have put up strong resistance and have been fighting official control through every means.
- Apropo this, the Minister of Economy, Pedro Vuscovic, announced a government project to create a National Newsprint Institute to assure a proper supply of newsprint to the news modio.
- 9. Chile has formally protested to Washington over a New York Times report (yesterday's edition) saying that Herb Klein, White House communications director, and Robert Finch, had expressed a belief, based on their recent trip through Latin America, that the Allende government's days were numbered. The White House has denied the report, carried in the Times under Tad Sculz' byline. The Chilean protest, relayed through Ambassador Nat Davies in Sontiago, expressed "profound surprise and displeasure" over the report.
- 10. This report was not well received in Argentine Casa Rosada circles either because Finch spent a good portion of his time here with President Lanusse and if Finch got any "feeling" for the Chilean situation this would be, unavoidably, the best source. Lanusse has been displeased with some other Finch indiscretions, like attributing remarks to the Argentine president that had been made in confidence.+
- 11. There are several economic plans in the works, not just one, from which Lanusse will extract the final version. Among others, the president of the Central Bank, the minister of social welfare and the armed forces have prepared economic policy papers. The

military types don't trust the economists and vice-versa, so the final version is still a blur. We are assured that whatever emerges will not be unfavorable to foreign investors. But there are no specifics. +

12. In reply to your query at the <u>Monday staff meeting</u>: Lanusse is very 'strongly in the saddle. He's been Armed Forces CinC for over three years and the people in key posts are all his boys. There are no visible on-the-job trainees for his post, as was very much the case in Ongania's last years and Levingston's last weeks. Note he took off for Lima the day after the abortive coup attempt. His daughter's wedding the same coup night went off undisturbed. +

Luck.

cc. Messrs. H. Hendrix
E.J. Gerrity
E.R. Wallace
K.M. Perkins
E. Dunnett
J.W. Guilfoyle
R. Marshall
J.J. Foley
ITTLABA

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Systems Confidential

THIS IS A CRYPTEL MESSAGE "PARODY"

THIS IS ITTLA BA 2.30 PM/CM

HENDRIX - ITTHONY (VIA CSEA BA) BERGELLEZ - ITTLA BA TO RECEIVED CRYPTEL 6;00PMXCD FROM DATE DEC 5, 1971

GERRITY, WALLACE, PERKINS, DUNNETT, GUILFOYLE, GOLDMAN, STIMSON, BOOSE, CONNERY - ITTHONY (VIA CSEA BA)
MERRIAM, NEAL - INTELCO WASHINGTON
FOLEY - ITTLA BA WELLS - ITTOOK BAIRES

LA-3309/L

HRGENT SYSTEM CONFIDENTIAL PART ONE OF FOUR PARTS

SUBJECT: CHILE SITUATIONER (PART 2--DETAILS)

- THE BUT TELEVI VINUEDREDE HIS CHRISCED APPRECIABLY MITHIN THE PAST HOUTH CTHE PERIOD ALMOST COINCIDING WITH FIDEL CASTRO'S VISIT) AND THERE ARE CLEAR INDICATIONS NOW THAT THE SOCIALIST EXPERIMENT IN CHILE HAS ENTERED ITS MOST DIFFICULT --IF NOT DECISIVE-- STAGE.
- 2. THE POLARIZATION OF MARXIST AND NON-MARXIST FACTIONS IS MARKED AT HEARLY ALL LEVELS, INCLUDING STUDENT AND TRADE UNION. THE BASIC CAUSE IS A RAPIDLY DETERIORATING ECONOMY, THE EFFECTS OF UNION (FOOD SHORTAGES, PISING PRICES) ARE BECOMING POLITICAL ISSUES. APROPO THIS, NOTE FELIPE HERBERS'S PROPHESY FILED SEPT. 15 (TELEX 9-1284/4).
- FELIPE BERRERA'S PROPHESY FILED SEPT.15 (TELEX 9-1284/4).

 3. UMABLE 10 CONE UP WITH QUICKIZ ECONOMIC SOLUTIONS OR POLITICAL PALLIATIVES (I.Z., NATIONALIZATIONS IN THE GRAND COPPER MANNER), THE GOVERNMENT'S POPPLANITY HAS VISIGLY DECLINED.

 PEOPLE IN THE STREET NO LONGER MASK THEIR DISCONTENT, AS IN THE PAST.

 4. EARLY IN THE VEEK, THE GOVERNMENT REMOVED THE LABLE OF "UNBONCY" IT HAD ATTACHED TO A PROJECTED CONSTITUTIONAL AMENDMENT CREATING A UNICAMERAL PARLIAMENT. THE ANTI-GOVERNMENT BAJORITY IN CONCRESS HAD OPPOSED THE HEASURE AND BY PRESSING ITS ACCEPTANCE THE GOVERNMENT VOULD HAVE BROUGHT ABOUT A PLEBISCITE. THE GOVERNMENT ACTION PARALYZES THE BILLU. THE CONSENSUS IS THAT THIS IS FVIDENCE THE GOVERNMENT RECOGNIZES ITS VULNERABILITY IN A PLEBISCITE. THE GOVERNMENT RECOGNIZES ITS VOLHERABILITY IN A PLEBISCITE.

END OF PART ONE OF FOUR PARTS

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System Confidential

5. THE STRIFE AT THE NATIONAL UNIVERSITY HAS PRODUCED AN EQUALLY ELOQUENT SIGN OF GOVERNMENT UNPOPULARITY. ALTHOUGH THE CHRISTIAN DEMOCRATS NOW THE ELECTIONS TO MAKE A NEW RECTOR SEVERAL MORTHS AGO, THE STUDENTS AFFILIATED TO THE GOVERNMENT COALITION (UP) REFUSED TO GIVE UP. IN THE PAST MONTH THEY PHYSICALLY SEIZED SEVERAL BUILDINGS AND A FIGHT

MONTH THEY PHYSICALLY SEIZED SEVERAL BUILDINGS AND A FIGHT UAS ON, FROM THE SHAMBLES EXERGED A UNIVERSITY FROMT, EMBRACIED STUDENTS AND PROVESSORS OF ALL POLITICAL HUES, DETERMINED TO END THE SQUABBLE THROUGH A PLEBISCITE. THE UP COALITION AT THE UNIVERSITY IS OPPOSING THE PLEBISCITE, BUT UNIVERSITY AUTHROAITIES ARE DETERMINED TO MAVE IT.

IN RECENT WEEKS, STUDENTS AT THE CATHOLIC UNIVERSITY OF VALPARAISO, THE AUSTRAL UNIVERSITY AT VALDIVIA AND THE NATIONAL UNIVERSITY BRANCHES AT LA SERFMA, TALCA AND TEMUCO, FARCED OUT THE MARXISTS FROM CONTROL IN SCHOOL ELECTIONS. THE UP COALITION MAS ALSO BEEN DEFEATED IN VALIOUS TRADE UNION AND PROFESSIONAL ASSOCIATION ELECTIONS RECENTLY. A NOTABLE TURN IN THIS RESPECT WAS THE ATTEMPT TO MREATE LABOR PROBLEMS AT THE PAPER AND CARDBOARD FACTORY, A PRIVATE FIRM THE GOVERNMENT IS SEEKING TO CONTROL THROUGH PURCHASE OF STOCK. A LABOR CONFILCT COULD HAVE GESU TED

PRIVATE FIRM THE GOVERNMENT IS SEEKING TO CONTROL THROUG -PURCHASE OF STOCK. A LABOR CONFLICT COULD HAVE GESU TED IN IMMEDIATE INTERVENTION OR GOVERNMENT CONTROL. BUT THE VORKERS THEXSELVES DEFEATED AN EFFORT BY A MINORITY GOVERN-HENT-CONTROLLED UNION FACTION TO CREATE THE LANGE CONFLICT.

TO CLOSE OBSERVERS OF THE CHILERY SCENE, ALL THIS SPELLS CRISISBAT MEDIUN RANGE AND A SO-CALLED "CRUNCH" IS EXP IS EXPECTED TO MATERIALIZE DEFORMATOR HAVE THE DANGER, AS SOME SEE IT,
IS THAT PRESIDENT ALLEMDE IS BEING FORCED TO THE POINT
WHERE HE WILL HAVE TO DECIDE WHETHER HE'LL INSIST ON

SOCIALIZING CHILE THROUGH DEMOCRATIC PROCEDURES OR FALL IN WITH THE LEFTWING EXTREMISTS WHO LONG HAVE WAILED THAT THE ONLY ROUTE IS VIOLENCE. IF HE OPISVOR THE VIRST CHOICE HE ALIENATE THE CASTRO-MADIST HOTHERDSDAND GUERRILLA ACTIVITY IS CERTAIN TO RESULT. TAKING THE SECOND OPTION MEANS A CONFRONTATION WITH THE MILITARY, OR CIVIL WAR.

8. IT'S DIFFICULT TO SAY AT THIS POINT WHICH WAY ALLEME

WILL GO IF PRESENT CONDITIONS CONTINUE TO DETERIORATE AND HE MS FORCED INTO A DECISION. THE VIEW IS THAT THE DETERIOR-VATING CONDITIONS FAVOR THE LEFTUING EXTREMISTS' STRATEGY

TO BRIDG ALLENDE TO THEIR SIDE BY POINTING UP TSE NEARLY INSURMOUNTABLE DARRIERS (CONGRESO, SUPREME COURT) TO PEACEFUL SOCIOLIZATION EO CHILEXM

ENDOPART TWO OF FOUR PARTH

System Confidential

System Confidential PART THREE OF FOUR PARTS

9. AT THE SAME TIME, HOWEVER, THE OPEN AGGRESSIVENESS OF THE EXTREMISTS' IS UNIFYING MUCH OF THE OPPOSITION.

10.FIDEL CASTRO DID LITTLE TO HELP ALLEME WITH HIS OPPOSITION.

EVEN THE CHRISTIAN DEMOCRATS CRITICIZED HIS PROLONGED

VISIT. CASTRO'S FEMARXS, AFTER THE UNUGUAYAN ELECTIONS,

THAT THE OULY PATH TO POWER WAS VIOLENCE LEFT A DAD TASTE

AMOUNT THOSE WHO ACTRODY HYPROGUSY IN HIS EAST LEFT AMOUNT THOSE WHO DETECTED HYPROCHISY IN HIS EARLIER EXHORTATIONS TO YOUNG CHILERUS TO GO ALONG WITH ALLENDE'S PEACEFUL PLANS FOR SOCIALIZING THE COUNTRY, HIS PARTING REMARKS, INSTRUCTING THAT THE CUBINET. ALS PARTING VEAK, ALSO ARE SAID TO MAVE IRKED HIS MOSTS. SIZING UP THE SMALLISH CROND GATHERED TO BID HIM FAREVELL IN THE 30,000 SEAT MATIONAL STADIUM, CASTRO SAID: "WE (IN CUBA) REUNITE TEN TIMES MORE PERSONS IN TWO HOURS THAN ARE GATHERED MERE"

ON CHILTELCO: ON CHILLEGO:

11.B. HOLMES REPORTS THAT FIVE IRON COUNTRY REPRESENTATIVES

HAVE BEER SUMMORED BY CHILTELCO TO MAKE AN APPRAISAL OF THE

COMPARY'S VALUE. HE DID NOT HAVE THE NAMES OR NATIONAL

ORIGIN. HE SAID ORE NAME SOUNDED LIKE 'SHUGA'.

12. DURING THE RECENT STRINGT THE PRO-GOVER WHENT PRESS PUBLISHED AND DELINGUEST ANOUGHS OVED THE COMPANY. SURVIVE WAS SURVIVED. BEFORE THE CHAMBER OF DEPUTIES ON MONDAY TO EXPLAIN. HE BEFORE THE CHAMBER OF DEPUTIES ON MONDAY TO EXPLAIN. HE SAID THERE HAD BEEN A MISTAKE AND HAD ORDERED AN INVESTIGATION INTO HOW THIS WAS LEAKED OUT. HERMAN STREETER, THE NEW V OPERATIONS CHIEF, IS BELIEVED TO BE THE SOURCE OF THE INFORMATION. SCHATZ' EXPLANATION TO THE DEPUTIES WAS NOT WELL RECEIVED, ACCORDIN TO PRESS ACCOUNTS, AND EVEN THE GOVERNMENT DEPUTIES CONDERMED THE LEAK.

13. SCHATZ ORDERED THE TERMINATION OF SOME STATISTICAL RESEARCH OPERATIONS AT CHILTELCO. AMONG THESE ARE SERVICE QUALITY STATISTICS. FOR THIS REASON NO SERVICE QUALITY FIGURES ARE AVAILABLE. YOU HAVE THE LAST SERVICE REPORT AVAILABLE.

ARE AVAILABLE. YOU HAVE THE LAST SERVICE REPORT AVAILABLE COVERING A MID-OCTOBER PERIOD.

. CHILTELCO STRIKE BEGAN WHEN JAIME SCHATZ REJECTED WORKER DEMANDS FOR THREE MMINIMUM WAGES. WORKERS PARED THEIR DEMANDS TO 2 1/2 , SAME AS LAST YEAR.

System Confidential END OF PART THREE OF FOUR PARTS

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IART FOUR OF FOUR PARTS System Confidential

15. What could have been a serious conflict at chiltelco was avertab largaly by the imposition of a state of embagency (a milder form of martial land) in the santiago area, plus curfed, to cope with extensive rioting that broke out wednesday and thursday, dec 1-2. Fearing military intervention, workers gave up plants which they had physically tary to the TAREN OVER.

INTERVENTION, VORKERS GAVE UP PLANTS WHICH THEY HAD PHYSICALLY TAKEN OVER.

16. THIS AND THE APPROACHING XMAS HOLIDAY FINANCIAL PRESSURES SOFTEND THE STRIKERS' STAND. STILL, DUR SOURCES WITHIN CHILTELCO REPORTED THAT OVER 1,500 EMPLOYEES DELIBERATELY DELAYED PICKING UP HEIR BORNISES AS A SIGN OF DISSATISFACTION.

17. IN THE EARLY STAGES OF THE STRIKE, ECHATZ ORGANIZED "FERSUASION" TEAMS WHICH WERE SENT INTO THE VARIOUS PLANTS TO EMPLAIN THE COMPANY'S DELICATE FINANCIAL CONDITION AND WHY THE WERERS SHOULD NOT STRIKE, SCHATZ LOST HIS COOL WHILE MAKING A PERSONAL "PERSUASION" CALL ON THE LONG DISTANCE OPERATORS, THE MOST DEFIANT OF THE STRIKERS. UNABLE TO AROUSE SYMPATRY THERE, SCHATZ TOLD THEM ONLY ONE MINIMUM MAGE. O'ME OF THE ANSAIER OPERATORS TOLD SCHATZ THAT HIS REMARKS WERE PROOF THAT NOTHING HAD CHANGED AT CHILTELCO UNDER THE SEN MANAGEMENT, THAT THE PRESENT BOSSES WERE EVERY BIT AS INTRANSISENT AND STINGY AS THE OLD REGIME.

18. THE NEW PR DIRECTOR (MO HAS REPLACED MARID OYARCUD), SANTIAGO ESCOBAR, 25 YEARS OLD AND APPARENTLY INEMPERIENCED, VEHT IN TO PICK UP THE PIECES IN THE LONG DISTANCE SECTION. HE SEY PRIMAD. THAT HIS HIMSELF TO THE OPERATORS AS THE NEW PR MAN. THA AM ALSO, HE ABDED, A LAWYER, ECONOMIST, SOCIOLOGIST AND MEUSPAPERMAN. ONE OF THE LADIES ADDED:

15 A GUY UNG GOSS AROUND GOOSING PEOPLE OF THE OPPOSITE SEX. THE LAUGHTER UNDERVED ESCOBAR. HE SAID HE WAS MAKING A GREAT SACRIFICE TO COVE TO THE COPPANY TO WORK FOR ONLY 8,000 DISTRESPECTFUL CRIES AND SHOUTS THAT "WE ARE SACRIFICING OURSELVES FOR ADO ESCUDOS AND YOU ARE MAKING EIGHT THOUSAND, EEGANDS DERRELEEZ ORIGINAL TOMR HENDRIX (TP)

BERRELLEZ

DARMES

ORIGINAL TOMR HENDRIX (TP) COPIES

TO MR GERRITY MR WALLACE

END OF PART FOUR OF FOUR PARTS

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MR PERKINS MR DUMNETT MR GUILFOYLE

MR GOLDMAN

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MOSSBELLG

MR STIMSON MR BOGIE MR CONNERY :

System Confidential

PM 1 1713 AICEL CCRRITY MC CABE SCHAFFER ! BRAVE I KURYOR DURLEAVY VALERTE HAMILTON KNOR12 MC REH L RESSETT TEN HAMBAY KILLER. DONTERHAN FAMILED J.O. PEPRY WEADOCK WATER COOKSON ANSPACH STRISON

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PERSONAL AND CONFIDENTIAL

December 10, 197

RECEIVED

DEC 1 3 1971

MEMORANDUM TO: F. J. Dunleavy/R. E. Bennett

F. J. Barner.

Meeting with

of Chile

Jack Guilfoyle, Hal Hendrix and I met for luncheon
this noon with the Chilean [legislator]
, referred to in my

earlier memo.

spoke at some length on the situation in Chile. While his information appears to be somewhat dated as he has been in the U. S. for the past two to three weeks, he did express the opinion that the recent street demonstrations by women were the beginning of serious trouble for the Allende Government which would escalate in the near future. The Government's foreign currency reserves, he indicated, will be completely exhausted by the end of this year, and this will lead to a worsening of the food and economic situation which in turn will probably result in increasing street disorders. He believes that Allende's over-reaction to the recent demonstrations, i.e., declaration of state of emergency etc., indicates his appraisal of how seriously and rapidly the situation could deteriorate.

was quite reserved on the possibility of intervention by the Armed Services, indicating not only the traditional and historical role of the military services in Chile, but also the fact, which he believes to be more important, that the services had no training or education whatever for civilian administration, unlike the military in other South American countries, and were well aware of this. Besides, he said, anyone who follows this Administration is going to have a most difficult time, and the military is conscious of this factor.

Concerning the future of the Allende Government, whether it would remain on its present course, or be pulled by the left-wing extremists to a policy of violence and dictatorship, did not want to predict. He did comment that the only

To: F. J. Dunleavy/R. E. Bennett

December 10, 1971

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strongly disciplined political force in the country was the Communist party, and while the opposition parties were now tending to unify, they could not compare as a disciplined group with the Communists. Furthermore, that Allende would be unlikely to abandon such a hard-core group.

In concluding, expressed his view that the only possible way at present for defeating the Allende Government was for the opposition parties to unify further in their activities and to contest in every electoral possibility. This policy was seen in action recently in the university voting where the communists were defeated in Valparaiso and in several branches of the National University. Such electoral contests were becoming increasingly difficult because of the Government's control of the press and media. Funds were badly needed by all opposition parties, and urged us to assist if possible. His request was not an appeal for his own party or personal candidacy, but for the opposition parties generally. Tack Guilfoyle responded that our own situation had changed since the intervention of the telephone company, and the issue was now between the two governments. Nevertheless he advised we understood message and would give it the fullest consideration.

R. L. Brittenham

J. W. Guilfoyle
H. Hendrix

<u>Ilulull</u>

[B. P. DEC 1 3 71

World Headquarters

320 Ferk Avenus Hew York, II.Y. 10022 Tel. (212) 752-6600

To: , Mr. H. S. Geneen

Date: December 13, 1971

From:

E. J. Gerrity

Subject: Chile Political-Economic Developments

Bob Berrellez of our staff in Buenos Aircs has just returned from another quick look at the situation in Chile and reports some interesting and significant developments. Among the highlights:

- 1. There are clear indications that the Socialist experiment in Chile now has entered its most difficult—if not decisive—stage. The retarization of Marxiere and non-Marxier is marked at nearly all levels. The government's popularity has visibly declined, with people in the street no longer masking their discontent. A serious confrontation is predicted before mid-1972 by even the most cautious observers. Many Chile-watchers forecast a showdown by March, 1972.
- 2. Responsible sources in Santiago report that Chile's foreign exchange reserves were down to \$7 million last week. Last Friday, the government devalued the escudo by almost 30 per cent. The Central Bank president is expected in the U.S. this week to seek softer terms for repayment to U.S. and European creditors of Chilean debts, which total more than \$3 billion in principal and interest.
- 3. Allende appears to be backing down from his announced plan to call for a plebiscite on the question of replacing Congress with a unicameral parliament. The proposal is certain to be defeated in Congress. The government also is attempting now to avoid plebiscites in the restive universities.

Mr. H. S. Geneen 👈

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December 13, 1971

- 4. Allende is being forced to the point where he soon will have to decide whether he will insist on socializing Chile through democratic procedures or fall in with the left wing extremists who long have wailed that the only route is violence. Deteriorating conditions favor the latter option.
- 5. With respect to Chilteleo, Benny Holmes advised Berrellez that five Iron Curtain country representatives have been called to make an appraisal of the company's value. Holmes did not know their names or country of origin,
- 6. Holmes also reported that Jaime Schatz, the government intervenor at Chiltelco, is having considerable problems with the Chiltelco employes, who, as you know, staged a strike last week in a dispute over bonuses. What might have been a serious conflict at Chiltelco was averted by the government's imposition of a state of emergency to cope with the December 1 and 2 rioting in the streets.

cc: R. Bennelt

- F. J. Dunleavy
- J. Cuilfoyle
- L. Hamilton
- K. M. Perkips
- H. Perry
- J. Stimson
 - E. R. Wallace

DATE

	FROM		10	FROM		
		E. J. GERRITY			L. J. KALLSEN	
		J. A. ABSOTT	1		J. D. KEAVENY	
		H. ANDERSON	1	1	DEH-KIERNAN	
•		J. D. BARKER			M. D. KIRKWOOD	
		D. D. BEARD			J. L. LOWDEN	
		J. A. CARLE			G. J. MASSAUA	
		T. H. CASEY			W. J. MCHALE	
		T. J. CONNOLLY			T. S. MENKEL	
		R.A. CRONENWETT			W. R. MERRIAM	
		L. B. CUTTER			J. D. NEAL	
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		M. M. DE LORME			A. J. PUGLIESE	
		E. DUNNETT			J. F. RYAN	
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Rose for file

W.

E. J. GERRITY

December 15, 1971

MEMORANDUM FOR FILE:

Through Jack Guilfoyle's association at Bethlehem Steel I talked to a Robert Quier in the Comptroller's Department in Bethlehem. (Bill Sitterly, Assistant Comptroller was not available today).

The purpose of my discussion was to determine what OFDI recognition Bethlehem got with respect to its Chilean operation. The facts of the Bethlehem situation are roughly as follows:

The Bethlehem investment in Chile was carried as a branch operation when it was sold to the Chilean Covernment. Bethlehem received notes for less than the book value of the property payable over ten years with the first payment to come in three years. Bethlehem had these notes evaluated by Kuhn Locb who determined that they were worth approximately \$11 million (I believe the original face value was \$17.3 million). These notes were guaranteed by OPIC to the extent of the \$11 million figure and this corresponds to the item mentioned in the OPIC Annual Report for Bethlehem Steel.

Quier advised me they had asked for an interpretation of their entire Chilean situation and had gotten: no answer yet from the OFDI in spite of their application and several discussions.

Roughly they were looking for a negative transfer of capital to their entire investment in Chile, less the \$11 million value which had been paid on the notes. At the present time they have received no answer from the OFDI on this item. The matter is being pursued "ith the OFDI by a Mr. Schneider of their Legal Department with whom Jack . Guilfoyle has been in touch.

Our application to the OFDI included a request that we be givencurrent credit for the \$153 million of investment in Chile and failing that a credit for the \$92 million claim we had filed with OPIC. The OFDI has not turned us down but indicated that they would consider the problem when we had received money from OPIC. We tried to convince them that the recognition of the OPIC claim as an inflow from Chile should not be delayed because of administrative procedures of OPIC.

At the present stage of negotiations with the OFDI, it seems clear that this situation will not be dealt with this year.

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cc: Assrs. F. J. Dunlewry

B. J. Gerrity

L. C. Englison D. i Hyou

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		J. D. BARKER			M. D. KIRKWOOD	
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		J.P. FITZPATRICK			R. L. SCHMIDT	
		T. C. FLYNN			A. D. SQUEGLIA	
	<u> </u>	E. W. FRISBIE			H. J. TAGGART	
1	<u> </u>	R. L. GRECO			R. K. TAUBE	
		H. V. HENDRIX	~		K. J. VIGUE	
	1	J. V. HORNER	}		E.R. WALLACE	
		J. P. JANNUZZO ·			E. A. WHITE	
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ITT . PUBLIC RELATIONS DEPARTMENT

12/28/71

Re: Chile

To: Messrs.

H.J. Aibel

R. G. Bateson

P.J. Connery

F.J. Dunleavy

E.J. Gerrity-

C. N. Goldman

J.W. Guilfoyle

L. Hamilton

H. Hendrix

K.M. Perkins

J.M. Stimson

E.R. Wallace

W. Merriam/J. Neal (Washington)

FYI

E. Dunnett

CHILTELCO CHRONOLOGY -- OCTOBER 1971

- Oct. 1 -- Jaime Schatz took over as CTC interventor. B. Holmes

 presented Schatz with document stating company was being
 taken over against its will etc.
- Oct. 1 -- Superior Court Judge denied Novoa's request to return Holmes

 and others to jail. Judge stated there were no grounds for increasing charges from fraud to robbery.
- Oct. 1 -- Gonzalo Van Wersch eventually released on bail.
- Oct. 4 -- Santiago Press carried long statement from government interventor critical of previous press and outlining reasons for intervention.

 Statement also criticized CTC service and equipment.
- Oct. 4 -- ITT release reassirming ITT insurance protection by OPIC distributed.
- Oct. 6 -- AP Wire carried story on President Allende's press conference
 in which he discussed take-over of copper companies, etc.
- Oct. 7 -- . Telex regarding criminal procedure against B. Holmes and others
 received from lawyer, R. Lifsic.
- Oct. 7 -- Dan Gillen met with GOC interventor to review cash flow requirements for factory.
- Oct. 8 -- ITT Sud America's claim for compensation from OPIC filed in Washington.
- Oct. 8 -- El Siglo carried story in which Chile's Foreign Minister,

 Clodomiro Almeyria Medina said that Chile might cut levy on

 copper mines.

BEST COPY AVAILABLE

- Oct.-11 -- GOC passed resolution stating Chile would not pay indemnifications for nationalization of copper companies.
- Oct. 12 -- Dow Jones Ticker carried story on GOC release stating Cerro

 Corp. to receive compensation but Anaconda and Kennecott owe
 the Government more than property worth.
- Oct. 13 -- News release on ITT's filing with OPIC issued in New York,
- Oct. 13 -- Dow Jones Ticker carried story "Anaconda to appeal Chile

 Expropriation".
- Oct. 13 -- Comptroller General of GOC, Hector Humeres held press conference in Santiago to announce resolution passed October 11

 (Report of conference received by telex).
- Oct. 13 -- The Washington Star carried story on GOC scizing ITT property.
- Oct. 13 -- Schatz requested extension of Chiltelco loans on U. S. banks.
- Oct. 14 -- New York Times carried full story on Secretary of State

 William P. Rogers' statement regarding GOC announcement

 that it would not pay compensation to copper companies.

 (AP story) Chile rejects Rogers' statement on copper expropriations.
- Oct. 14 -- Telex reply sent to Schatz. In essence reply said: ITT Sud

 America would consider granting request if certain conditions

 were met.
- Oct. 15 -- OPIC announced it had received ITT's claim for expropriation of its 70% interest in Chilteleo.
- Oct. 19 -- Interventor authorized Mike Caram to replace B. Holmes at meeting to be held in New York for the purpose of discussing

foreign bank loans and the terms and conditions of rollover that the Chileans desire. New York CORFO representative designated to represent GOC.

- Oct. 19 -- Jaime Schatz replied to Hamilton's telex 6515K outlining
 agreement on payment of outstanding bank loans. In essence
 Schatz after discussion with Banco Central authorities proposed
 following: Consolidate overdue payments 10 and 11 with installments 12, 13 and 14 plus interest, prorate total on due
 dates beginning May 15, 1973 through November 15, 1980. If
 proposal approved remaining promissory notes would have
 same guarantees
- Oct. 23 -- President Allende's reaction to Rogers' statement widely circulated in Chile. Communist newspaper El Sigle carried headline "Rogers Threatens Chile Again". U. S. papers also
 carried reports on Allende reaction.
- Oct. 27 -- President Allende said he plans to nationalize U. S. owned

 DuPont industrial explosive plant and give it to the army

 (story carried by Dow Jones ticker)
- Oct. 30 -- New York Times story "Allende Admits Financial Crisis"

 reports on Allende discussions with GOC department heads
 in which Louis Corvalan, Secretary General of Communist

 Party said -- Chile's revolutionary regime was showing signs
 of loss of public support. The Christian Democratic said that
 Chile faced "the worst economic crisis in its history".

Oct. 30 -- New York Times carried story on copper concerns appeal in

Chile regarding Chile's Controller General ruling that copper

concerns are due no compensation for their properties etc.

CHILTELCO Chronology -- November, 1971

- Nov. 1-
 U.S. Ambassador Davis met with Chilean Minister Toha,
 During conversation Toha said that the GOC was interested
 in resuming negotiations with ITT. Davis requested Toha
 to put his request in writing. (See Goldman report dated
 Nov. 1.)
- Nov. 2-- At the request of interventor J. Schatz meetings between representatives of Chiltelco, Corfo and ITT were established with the banks presently extending loans to Chiltelco to discuss rollover of loans.
- Nov. 2-
 Benny Holmes advises that meeting in Chile has been postponed due to GOC problems resulting from food riots and because of emergency decree Santiago now under Army control.
- Nov. 3-Santiago AP story--President Allende ordered that imports be restricted to essentials in move to avert foreign currency reserves' crisis.
- Nov. 5-
 President Allende gave a two-and-one half hour speech on the anniversary of his first year in power. He mentioned his amendment to replace Congress with a Popular Assembly and if necessary would call for a plebiscite to accomplish this. He also covered the national debt of \$2.5 billion.
- Nov. 6-
 New York Times carried story on Allende's move to force
 a showdown at the pells in his attempt to replace both houses
 of Congress with a one-chamber "People's Assembly."
- Nov. 5-- The Chilean Senate approved in general the constitutional reform which will require the State to obtain laws in order to nationalize privately owned corporations.

President Allende submitted to Congress a proposal for constitutional reform that included replacement of present Legislature with a one-chamber "People's Assembly."

Nov. 12--

Nov. 11--

Belgian Government Credit Authority, Decroire, suspended credit to Chile until foreign debt consolidation and renegotiation have been agreed upon.

Nov. 12-

Union presented petition to SESA Chile relative to vacations, payment of year end bonuses and request for bonus to compensate for increased living costs.

Nov. 17-

Chiltelco's quality of service has deteriorated from preintervention levels according to information from B. Holmes.

Nov. 17--

Ricardo Lifsic telephoned to say that is arriving New York with a message from Allende to the effect that Allende would like ITT to return for negotiations in Chile and will issue a personal invitation to that effect after Castro's departure.

Nov. 14--

El Siglo published story on Jaime Schatz' public revelation of Chiltelco's debt load. Marxist press commented "If financial situation represents an obligation of nearly one thousand million escudos, the economic state of the company is not of the best."

Nov. 14---

El Siglo carried story on how the government coalition (UP) candidates won the Telephone Union elections.

Nov. 22-
AP carried story on Christian Democrats rejection of government plans to dissolve Congress and establish a "People's Assembly."

Nov. 22-- Chiltelco memo prepared for OPIC at their request. OPIC want to use material with their contacts on the Hill.

Nov. 22-Telex received by Guilfoyle from Chilean Ministers Jose
Toha and Pedro Vuscovic in which they request that
negotiations pertaining to the nationalization of Chiltelco
be resumed as quickly as possible.

Nov. 22-Marxists and anti-Marxists battled for several hours in
Santiago in a continuing conflict involving internal politics
at the University of Chile. The Marxists are trying to make the
University subservient to Chile's leftist government.

Nov. 30-U.S. Treasury Department requested up-to-the-minute information regarding ITT's negotiations with GOC.

APPENDIX IV

ANACONDA AND KENNECOTT DOCUMENTS

The Anaconda Company

1511 K STREET, N.W., WASHINGTON, D. C. 20005

Director Government Appairs

February 10, 1971

CONFIDENTIAL

Mr. C. Jay Parkinson Chairman of the Board The Anaconda Company 25 Broadway New York, New York 10004

Dear Jay:

A month ago, I initiated a series of meetings with Washington Corporate Representatives, whose companies have major investments in Chile or other Latin American countries. I suggested to Bill Merriam of ITT that he take the lead, which he did. The plan is to keep the pressure on Kissinger and the White House and to get frequent speeches in the Congressional Record, calling attention to the seriousness of the problem in Chile and in Latin America generally.

As part of the plan, I visited with Arnold Nachmanoff, Henry Kissinger's principal aide for Latin American affairs, particularly Chile. This was followed Friday by a similar visit from Jack Neal of ITT. We gave him a list of questions and points to make. Nachmanoff confirms the Juan de Onis New York Times article of January 27th, and indicated that this strong U.S. position was communicated to the highest levels of the Chilean government. He was pleased with Senator Javits talk on OPIC to the American Management Association, and felt that it was particularly appropriate for Javits to speak out, rather than the Executive Branch of the government. He shares the common concern that I have run into everywhere in the Administration -- mainly that it is important to avoid open challenges to Allende which would have the effect, in the Administration's view, of atrengthening him.

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Feb. 10, 1971

Basically, Nachmanoff describes the U.S. policy now as being quiet but strong, doing nothing to provoke Allende. If Allende should attack the United States, however, then our government would reply in kind.

Since the AID cut-off, Nachmanoff sees very few pressure points where we can gain leverage with Chile. He believes that foreign capital will avoid that country and that Allende will feel the pinch. He believes the best way to get at Chile is through her economy; however, the question was raised -- what happens to the companies which are sacrificed while this lesson is being taught to Chile? He didn't have a good response.

The next question was why the Inter-American Development Bank made two multi-million dollar loans to Chilean universities in the last month? Again, it was the old rationalization -- namely, we wish to avoid an open challenge, particularly when the projects were already in the pipeline.

The meetings of our group will continue along with our tactics unless you instruct me otherwise.

Sincerely yours

L. Ralph Mecham

LRM/dp

cc:

W. E. Quigley
John G. Hall
Guillermo Carey
W. M. Kirkpatrick
H. L. Edwards
Paul Bilgore
Julian Hayes

February 12, 1971

Mr. C. Jay Parkinson Chairman of the Board The Anaconda Company 25 Broadway New York, N. Y. 10004

Dear Jay:

In an earlier letter, mention was made of the fact that I initiated a meeting of Washington Corporate Representatives whose companies have significant holdings in Chile, or who fear the domino effect in Latin America.

Enclosed is a list of those who attended the last meeting. Others have since expressed an incerest.

We are at a point where the group can be used effectively, particularly with the White House and Congress.

Alro, when I initiated the meetings, I felt it was inappropriate for me to take the lead and suggested to Bill Morrism of ITT that he do so.

If you have any thoughts about the use of this group, I would welcome them.

Brand Carlotte Comment

Sincerely yours,

L. Ralph Mechem

LRM/dp

Enclosure

be: W. M. Kirkpatrick

February 22, 1971

Mr. William R. Merriam Vice President International Telephone & Telegraph Corporation 1707 L Street, N. W. Washington, D. C. 20036

Dear Bill:

Enclosed is a copy of a letter and edited transcript that I'm sending to my company management. In light of our mutual interest in Latin America and particularly Chile, I thought you would like to have a copy.

Sincerely.

L. Ralph Mechan

LRM/dp

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ALLENDE-TYPE SOCIALIZATION SEEN DISPLACING CASTROISK IN 8.A., EXPERTS URGE CONCILIATION

ANNOUNCER: Great Decisions 1971.

ROGERS: Latin America is one of the areas in the world that has the greatest problem of population growth; and, as you know, we have attempted to have very friendly relations with the Latin American countries; we've had the Alliance for Progress, and provided a good deal of assistance, of one kind or another.

There have been not too satisfactory results up to date.

ANNOUNCER: That was the Honorable William P. Rogers, United States Secretary of State.

Great Decisions 1971 is a series of programs produced by Wayne State University in Detroit, in cooperation with the Foreign Policy Association, in an effort to focus attention on suge of the critical issues of foreign policy facing the American government and people.

This is program number three, Latin America and the United States. Our moderator is Dr. Harlan Hagman, Dean of Administration at Wayne State University. Dean Hagman.

HAGMAN: What is the present state of our relations with Latin America? This is the response of Ambassador John H. Crimmins, Deputy Assistant Secretary, Bureau of Inter-American Affairs, United States Department of State.

CRIMMINS: Well, I would say that our relations really have not deteriorated. I think it's important to bear in mind that on both sides, that is, on our side and the side of the Latin Americans, we are in the process -- a not always easy process -- of adapting to great changes of a social, of an economic, and of a political nature, in Latin America as the countries try to achieve the aspirations in a large part awakened by the Alliance for Progress.

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Any period of adaptation, I think, is very difficult, and any period of this kind will be marked by frictions, and tensions, and uneasiness. But the basic point, I think, should be borne in mind Is that Latin America is in a wrenching time; it is trying to adjust to great pressures, great forces, which can be summed up in this way: It is trying to achieve the aspirations of its people for a better, freer, more open, more rewarding, more dignified life.

HAGMAN: The Alliance for Progress, Mr. Ambassador, seems to many to be now written off as a failure. If it did fail, why did it fail, and what are the chances of reviving it, or a similar program?

CRIMMINS: I am very strongly of the opinion that the Alliance has not been a failure; is not a failure. I say 'is not' because the principles of the Alliance still guide us and the countries of Latin America in our common efforts to achieve the better life to which I referred.

i think there is a misunderstanding, a very strong misunderstanding about the adherence by the Administration to the principles of the Alliance. The President, in his key address of October 31, of 1969, specifically stated that the principles and the goals of the Alliance were those of the Administration, and were to be maintained.

The Alliance appears to some to be a failure because -- and i, as a participant in the early execution of the Alliance, acknowledge this -- because the task of achieving the high goals, even the noble goals of the Alliance, was oversimplified. The enormous problems of modernization, to which the Alliance was addressed, were underestimated in their complexity and in their unyieldingness to rapid change.

In practical terms the Alliance, taking the ten-year span, did reach the arithmetic goals; for example, we, for our part, did meet, in terms of our own contribution to the Alliance, the goals to which we subscribed in 1961. The fact is that the goals were set too low, and the time frame of ten years, which was the original period of the Alliance, was, as experience has shown, incredibly short to achieve the dramatic changes which were the objectives of the Alliance.

In other words, the principles of the Alliance remain entirely valid; the goals of the Alliance can be reached only with much greater effort over a longer time than the framers of the Alliance originally thought. In literal terms, the Alliance has met in large part its calculable goals, but those were simply not sufficient.

There are enormous ways in which the Alliance has achieved a very great deal. For example, the fact that economic and social development reform is a political imperative in every country in Latin America, not only the democratic countries but the countries.

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that are governed in a more or less authoritarian way--this fact in itself is one of the key results of the Alliance.

The invisible creation of a whole human infrastructure of trained technicians devoted to development of reform is another success of the Alliance. These things are not evident, but they-in fact, one might say that the ferment in Latin America, to which I referred earlier, is a fruit of the Alliance.

When the Alliance was conceived, its most thoughtful architects, its most thoughtful participants, recognized that the enormous changes which the Alliance sought could not be achieved without turmoil, without friction, without confusion. The fact that this has occurred should come, in retrospect, as no surprise.

HAGMAN: Our next guest is Mr. Ronald Snyder, Professor of Political Science, Queens College, New York, and author on Latin America. Mr. Snyder, do you feel that our intervention in the affairs of Latin American countries is due to our business interests, or has it been due largely to our fear of the spread of communism in Latin America?

SNYDER: This is a very difficult--you know, it's an either/
or question. I think in the periods of relative neglect of Latin
America, our policy in periods in which we were less concerned with
Latin America, our policy is most heavily determined by business
or economic concerns. Our periods of great concern with Latin
America, which have coincided with, you know, international crises-I think security--security considerations do take precedence over
economic considerations.

There are times we have sacrificed, you know, the concerns of particular United States investors or companies for broader considerations. Settlement of the dispute with Mexico over petroleum nationalization, which we settled at the very end of the thirties, when we wanted Mexico behind us when facing the war.

So as we--periods of great interest in Latin America, I think, we are concerned about security priorities, and this, of course, tends to make it look like it's a sort of negative, narrow anti-communism governing our actions.

It's one of my great reservations about this lower profile in the Nixon Administration's policy toward Latin America. I think he's going to show again, as in the Eisenhower period before 1958, or so, that relatively the concerns of our business—of U.S. business and economic interests are higher in determining our Latin American affairs than was the case at the end of the Eisenhower Administration, or the Kennedy years—not necessarily higher than during the Johnson years, which was a period of relative neglect of the area.

HAGMAN: Dr. Snyder, the fears of some people are that Castrotype communism will be spread through other Latin American countries. is this a genuine concern for the United States, or is it rhetoric?

SNYDER: I think that -- if we face it as Castro-type communism,

that we're pretty well past the point where we have to worry about exportation of the Cuban revolution per se, as we did in the early 1960's. Though, in respect to this, I recall vaguely when I was younger--you know, how we're concerned about the spread of Perionism to other countries--well, Castro has been in power now for longer than Peron's regime was ever in power in Argentina, and we've come accommodate to it in much the same sense.

I would think that in some regards the Chilean experience is a more--you know, is one that should give us much more thought for the future than any idea that the Cuban experience per se can be-i think Che Guevare's difficulties in Bolivia showed the difficulty of exporting that kind of a revolution, which was so uniquely Cuban in many regards.

But if we're talking in the broader sense about some k.nd of a Latin Americanized version, you know, of communism, if you will, or Marxism, Leninism--if you want to be more precise, I feel the Chilean experience gives us--shows us that this can come about in a very different manner, and one that's a little--we're a little less able to deal with directly.

HAGMAN: You're suggesting that the new government in Chile may not be friendly toward the United States?

SNYDER: Well, I would be rather surprised, you know, If-If there's any reason for Allende to be friendly toward the United
States--I mean, we've shown since the early 1950's that the--you
know, in all our contingency planning, that, you know, the worst
thing you could think of happening in Chile, and one of the most
disastrous things that the United States could think of happening
in Latin America, was for Allende to come to power in Chile.

There were these huge sighs of relief in 1958, you know, when he lost by a narrow margin. Much greater sighs of relief in 1964, when he was soundly defeated by Frei, because it was felt that maybe the Christian Democrats would be able to continue in power for a long period of time. And now we eventually have him, Well, he's known for at least twenty years that we were most upset at the thought of his ever coming to power in Chile.

This goes--you know, and I'm personalizing in terms of Allende, but all the groups and forces around him know, you know, that we've opposed their coming to power, we're upset about the prospect of their coming to power, that there's--you know, that there's no reason to believe that we will be inclined to do anything more than to put up with them.

And so I think they will be increasingly hostile to us, I think they will show a substantial Chilean nationalism that's been building up over the years.

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HAGMAN: Dr. Seymour Melman is Professor of Industrial and Management Engineering at Columbia University.

Or. Melman, our policy toward Latin American countries has been sometimes called neglect and sometimes coercion. What should be our attitude toward Latin America in the years shead?

MELMAN: If I had a part in making policy for--of the United States government towards Latin America -- I was about to say of the State Department, though I read lately that this is less eminent in foreign policy than before -- I would wish that the countries of Latin America be given many forms of encouragement for their own economic development, and that that be done by appropriate attention to pricing parity in relation of raw materials that we buy from them, related to the prices of goods that we and other countries sell to them.

Second, I would like to see Economic Development funds from the American public till be available to those countries, preferably through international agencies, so that the carry-over of bad feeling which has prevailed from previous heavy-handed practice, like the intervention in the Dominican Rapublic, or the internal manipulations in other Latin American countries, would not dominate the scene.

The consequence of that would be economic development for the Latins, a greater sense of security for those societies, probably greater social stability, and better relationships between the United States--also, I would expect that out of their improved economic well-being would come a greater capacity to buy, and a greater capacity to sell.

America should always remember that the foreign trade of the United States is dominated by buying and selling to Canada and Western Europe. That's where the action is. The reason is very simple. They have something to sell and we--and they have something to buy. ($\underline{81c}$.)

And so, when countries become industrialized, as I would hope Latin America would increasingly, they, in turn, would have more to sell to us, and will have more competence to buy from us. That will be to our mutual well-being.

HAGMAN: Dr. Saul K. Padover is a Professor of Political Science, Graduate Faculty, the New School for Social Research, New York City.

Dr. Padover, as we look ahead in the next few years, we see many problems in the world; the Middle East, Europe, Latin America, Southeast Asia. Which of these areas do you feel will be the most pressing upon the United States?

PADOVER: Well, it depends upon the tima span. I would say, If you take the next decade, my guess would be, not Europe, not

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Japan, not the Pacific; my guess would be Latin America. I think we are witnessing the beginnings of a stabilization in Eastern Europe, whether they like it or not. I think there is a passive recognition that Eastern Europe will be a Russian sphere of influence for the time being. I think there's a beginning of a negotiated settlement between the two Germanies.

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I don't foresee trouble in Europe, frankly, but I do foresee problems in Latin America, very real problems. And in the following decade I foresee equally difficult problems in Africa. Now, in regard to the Middle East, I think the problems there are not crucial. There is only one problem, namely, Israel and Arab relationships.

Well, that probably will be negotiated, and an uneasy kind of truce will be arrived at. I expect it within one or two years; not necessarily love between Arabs and Israelis, but a passive agreement that they are to leave each other alone for the foreseeable future. But I do believe that Latin America is on the verge of explosion; many parts of Latin America will explode in turmoil, and they will have an effect on our own policies.

There are too many problems that have not been solved in Latin America, that have been postponed. Most of it is a matter of internal revolution, internal misery, internal lack of development. And I think Chile is now showing it. You have the election-well, Marxists, communists-type-and I think he will carry through the first of the Latin American socialist revolutions which will, I think, serve as a model for others, as Cuba has not served, because Cuba was a little too violent, and too far from Latin America actually, because it's an island.

But I do think that we are going to see serious problems there. That's where I would look for possible U.S. creative policy.

HAGMAN: Dr. Padover, recognizing the many problems of Latin America in years to come, what will be--what should be the policy of the United States toward its Latin American neighbors in those troubled years?

PADOVER: Well, this may be a council of perfection, which has not been really followed—I would say one thing: Hands off Latin America. I would say no domestic intervention, unless the Russians or somebody else attempt to set up bases, as Khruschev tried in Cuba, aimed at the United States.

But short of that, I would say hands off, and I would go farther than that; I would say let's encourage the radical elements, provided that they're not aimed at the United States, but encourage the reformist, radical, socialist elements, because they're coming up anyhow. We might as well make friends with them, rather than enemies. I don't see anything that's going to stop these people in the long run, and we might as well be friends of developing populist

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revolutions in Latin America that could transform the whole area overnight if they knew they had a friend in the United States rather than an actual or potential enemy.

Now, we're, a little bit too scared, and have been, about labels. We're worried when somebody calls somebody a Socialist, or a Radical, or a Revolutionist. Well, the time has passed for this sort of thing. I think we shouldn't be worried about labels; we should be very realistic about it. The only line I would draw is direct armed hostility against the United States. I would draw that line, otherwise I would say"I don't care very much whatever kind of government you people want to establish. I'll try to live with it. And we'll do what we can for you, if you want our nelp."

But I wouldn't go out of my way to be very helpful either unless they ask for it democratically.

HAGMAN: 'It's been said, Dr. Padover, that our policy toward Latin America has been marked by either neglect or coercion. Is that a valid criticism?

PADOVER: Yes, I think-well, it is true, but I would qualify it. 8y and large it has been neglect of Latin American problems, the problems of the common people, and not neglect of the Latin American ruling classes. I think we have to be very fair, and frank, and honest about that. The United States policy, by and large, supported the rulers, the rich, etcetera, at the expense of the common people, which is one of the reasons why there is so much anti-American feeling in Latin America.

We have very few friends among common people in Latin America who look upon us as allies of their exploiters, so I would say we've neglected the people but we've not neglected the rulers and the owners. And the terrible thing about Latin America is, of course, the shocking inequality of income and standard of living, which Americans would never tolerate at home.

It's inconceivable in this country, this situation in Latin America. I think the time has come to stop doing this, supporting the rulers against the common people, and try to sympathize with the emerging masses of Latin America. Then we build friends andin half a dozen years, I think, we'd have wonderful friends and even, ultimately wonderful customers. I think trade with us would be good for the American economy--to have that many loyal friends and allies in the upcoming masses of Latin America.

HAGMAN: To many Americans, Mr. Crimmins, the Latin American countries seem to be unstable politically and unsound economically. Are there any bright spots to which you could point?

CRIMMINS: Well, I think, to take a hemisphere-wide view, there is considerable reason to be encouraged by the economic performance of the hemisphere as a whole, excluding the United States, in the last two years. The economic activity in '69-'70 has been encouraging in terms of the growth of such gross indicators as the national product.

Perhaps even more important, for a long-term point of view, exports from almost all the countries in Latin America have shown very healthy increases in the last two years. There have been very outstanding success stories in individual countries, from an economic point of view.

For example, in Mexico and in Brazil there have been dramatic increases in productivity and in production in general. There is an increasing emphasis in the majority of the countries on the social sector, in terms of public investment; a tendency which our bilateral assistance in the activities of multilateral assistance agencies is supporting.

In the social sectors I encompass education, health, grassroots efforts in the agricultural sector. So I think that, taking
the continent as a whole, in the last two years there has been
considerable forward movement of an economic sense.* I repeat, one
of the most encouraging indicators is the growing awareness of the
necessity for investment in the social sector. There is a terribly
long way to go, a-terribly long way to go, and I do not want to
suggest in any way, in any way, that Letin America is on the road
to fundamental progress.

We are still far from that. On the political side there is, of course, a good deal of instability around the hemisphere, but, again, this is a function of the drive on the part of the masses, really, for a better shake from society. And this fundamental urge is running up against antiquated institutions of a political, economic and special nature.

HAGMAN: ... We return to Mr. Ronald Snyder.

SNYDER: if we go back to the situation before 1958, then the answer is yes. The answer is-even though, you know, the net result of our aid programs and the Alliance for Progress sum up to much less than they aspire to, there are some very positive factors, not shown just in some of the economic growth rates, but in institutional fields..

Basically I would agree with Jerome Levinson and Juan deOniss in their recent assessment: the Alliance has lost its way--that there have been changes in terms of attitudes toward development. We have a much more systematic attitude, more broadly spread among leadership groups in many sectors about the need for development and how to go about development, an attitudinal base. And in the institution building side, the fact that there are in most of theme, Latin American countries now quite well-developed national planning

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^{*} Sic. * Journalists and Writers.

agencies capable of rationalizing, coordinating, you know, the country's own efforts toward economic and social development.

I think these are positive. There's even a positive side to the military governments of some of these countries, to the degree that they have decided to legitimize themselves. They must, you know, perform, they must deliver in the sphere of development. I think this is a plus.

The kind of statement that we used to make wryly in the 1950's about Bolivian progress perhaps could be generalized to the area as a whole. It was defined as a lin answering --you know, why the arca as a whole. It was defined as a --in answering --you know with all our aid to Bolivia going down a rat hole, nothing seemed to be any better than when it started. But what was pointed out was, well, it may not be better than when it started but the situation would have been many times worse if it weren't for our efforts.

So Bolivian progress was then defined as a diminution in a the rate of deterioration, and I think our net results in the last decade, or past few years in dealing with Latin America is a good bit more positive than that.

ANNOUNCER: You've been listening to Great Decisions 1971, Program Number Three: Latin America and the United States. Our thanks to our guests, the Honorable William P. Rogers, United States Secretary of State; Dr. Seymour Melman, Professor of Industrial and Management Engineering at Columbia University; Ambassador John H. Crimmins, Deputy Assistant Secretary, Bureau of Inter-American Affairs, United States Department of State; Dr. Ronald Snyder, Professor of Political Science, Queens College, New York; and Dr. Saul K. Padover, Professor of Political Science, Graduate Facuity, New School for Social Research, in New York City.

Join us next week for a discussion of Man and His Environment. Our moderator, Dr. Harian Hagman, Dean of Administration at Wayne State University. Great Decisions 1971 is produced by Wayne State University in Detroit, in cooperation with the Foreign Policy Association. Dan Logan speaking.

INTER OFFICE MEMORANDUM

ITT WASHINGTON OFFICE 1707 L STREET, N.W. WASHINGTON, D. C. 20036

Mr. Ralph Mecham

February 23, 1971

W. R. Merriam Ul

SUBJECT: Chile Ad Hoc Committee Meeting - March 5,

There have been developments on the Chilean front from our point of view and I hope from yours. I think we should get-together again and have scheduled a meeting for March 5 at 10 a.m. I hope this time is convenient for you.

We have made visits to the State Department and to the Hill and expect more visits before our meeting.

I look forward to seeing you March 5.

/cmb

P.S. If you know of any other people who have an investment in Chile, bring them along.

March 23, 1971

Mr. William R. Merriam Vice President International Telephone and Telegraph Company 1707 L Street, N. W. Washington, D. C. 20036

Dear Bill:

Many thanks for your thoughtfulness in sending me an account of the meeting between officials of your company and President Allende. It is of such importance that I have sent copies to our top management in New York.

Incidentally, I believe that Jay Parkinson, our Chairman, is about ready to join IEPA on some basis or other.

Again, many thanks.

Sincerely,

LRM/dn

L. Ralph Mecham

March 23, 196

L. RALPH MECHAM

TO

C. Jay Parkinson A W. E. Quigley John G. Hall

H. L. Edwards.

G. Carey

C. J. Bilgore

Attached are minutes of a meeting between President Allende and officials of ITT. I have maintained here a very close liaison with ITT and other companies who have extensive holdings in Chile.

Atch. Cy of Minutes of Meeting, March 10, 1971, between ITT officials and President Allende, with staff members, in Santiago. Tot

K.M. Perkins

From: Hal Hendrix

Subject: Meeting with Allende 3-10-71-Santiago

New York - March 12, 1971

Chill hiling

RECEIVED 111

MAR 25 1971

ce: E.J. Gerrity, E.R. Wellace, E. Dunnett

F.J. Dunleavy, J.W. Guilfoyle, J.Stimson, C. Goldman

R. Dillenbeck, M. Bogie, L. Hamilton, W. Holmes

R. Berrelles . ITTLA BA

W. Merriam, J. Neal - ITT - Washington

Following is a resume of a meeting March 10, 1971, in Santiago with President Salvador Allende. Attending were F.J. Dunleavy, J.W. Guiffoyle and B. Holmes. With Allende were Interior Minister Jose Toha, Jaime Schats, director-general of Servicios Electricos, and the President's translator.

The meeting started shortly after 11:30 a.m. and lasted about one hour and 15 minutes. It began in Allende's office and shifted to his study. The atmosphere and tone of the meeting were described as very cordial, relaxed, pleasant and amiable. Contrary to rumors, Allende appeared to be in excellent health. He was alert, attentive, displayed a ready sense of humor and asked numerous questions. He was at the same time clearly in charge of the meeting.

Throughout the discussion, which did not stray far beyond CHILTELCO matters, it was obvious Allende had been well briefed. It was aqually clear he did not fully understand the financial aspects of CHILTELCO. Neither did Toha nor Schatz.

Highlights of the discussion were:

1. Allende stated more than once he was not considering taking over CHILTELCO at this time. He said he did not want to expropriate or nationalize fully, emphasizing he would prefer a partnership arrangement of some sort. He did not spell out any details.

- 2. Allende said he would name a commission to review and study the problems and plans of CHILTELCO. He first said Minister Toha would head the commission, but later indicated Schatz would have the role. (Later in the day, Toha said at a press conference that Schatz would preside over the commission and this was reported in the March 11 edition of El Mercurio).
- 3. Allende said the commission would make ITT a proposal or an offer in 30 to 40 days, and he would expect us to return with a counteroffer if we found the commission recommendation unacceptable.
- 4. With respect to CHILTELCO's rate petition, following Dunleavy's review of it, Allende said only that the petition was being studied. He gave no hint about its disposition.
- 5. Allende seemed gemuinely impressed by the fact that the Chilean government, through CORFO, is already a partner with ITT in ownership of CHILTELCO. He also appeared to appreciate Dunleavy's emphasis on joint efforts to resolve "our mutual problems" in the operation of CHILTELCO. Allende said he looked forward to an amicable solution.
- Dunleavy pointed out candidly to Allende that he has a choice of three courses of action to follow:
 - (a) Continue to increase CORFO equity under the existing buy-out program established in the convenio.
 - .(b) Buy out immediately for cash.
 - (c) Expropriate CHILTELCO, causing us to file an immediate claim with OPIC (AID).
- -7. Dunleavy stressed that ITT has worked hard to avoid going to OPIC, even though the present financial condition-of CHILTELCO warrants it. Allende seemed properly impressed that we were not trying to use OPIC as a whip to force him to act, saying he desired to resolve the problems with us alone.

Generally, the flow of Dunleavy's remarks followed the outline prepared in New York:

Dunleayy set the theme immediately by saying he, Guilfoyle and Holmes. had come to talk about the problems of "our mutually-owned company."

Allende interruped to comment that "you have the biggest part of it,"
Dunleavy replied that "you can take it all any time, Mr. President," pointing
out that we recognized back in 1967 that Chile desired ownership in CHILTELCO
and proceeded to move shead with the convenio buy-out plan.

Dunleavy noted that under this plan CORFO now owned 24% of CHILTELCO. Allende asked Toha and Schatz if this was correct and appeared pleased with this fact,

Dunleavy commented that the government could accelerate the program or buy out all the ITT equity for cash, adding that Allende must make the decision on which is in the best interest of Chile.

At this point, Dunleavy told Allende that whether he was aware of the fact or not, Chile now has one of the best telephone companies in the world in CHILTELCO and one of the best telephone men in the world in Holmes. He also cited the expansion problems experienced by the Bell System in the U.S. and other telephone companies in all parts of the world.

Allende responded that he was aware of the great improvements made by CHILTELCO and complimented CHILTELCO for its expansion program. He was lavish in his praise of Holmes as a "fine administrator" and as a man and good friend. (Dunleavy later commented that he felt Allende probably was fonder of Holmes than Holmes himself believed.).

Allende ended his expression of admiration for Holmes by remarking that he wanted us to continue to be a part of CHILTELCO. He did not specify what he meant by this. Then, he asked what our problems are,

Dunleavy advised Allende that "we have an immediate problem in GHILTELCO." He explained the financial picture in detail and concluded by noting that in 60 to 90 days CHILTELCO will have an 8 to 10 million dollar cash shortfall, and that by the end of this year it will be about 14 million dollars.

Allende asked, "Is this a conspiracy among you foreign companies?"

Dunieavy replied negatively, pointing out that we have been trying hard to get debt rollovers. He also said Allende must help to obtain financing from Chilean banks.

Allende said he felt we should have adequate cash since ITT is a world-wide operation. He said he didn't believe cash should be a problem.

Schatz ventured that perhaps we do not put enough working capital into CHILTELCO.

Dunleavy then cited the financial facts about ITT and CHILTELCO, with emphasis on our re-investment of \$6 for each dollar taken out of Chile.

Allende expressed his concern at this point about international companies "deserting Chile." He cited Indiana Brass and Bethlehem Steel. Dunleavy commented that we were trying to work out a solution for CHILTELCO's problems.

Allende said he also was concerned about the attitude of U.S. banks toward Chile. He explained that Chile had recently paid some debts, about \$75 million. He said U.S. banks found the government to use reserve deposits to pay off these loans and later refused to approve new loans because the deposit level was down. Dunleavy and Guilfoyle reasoned that Allende figures he was sandbagged and resents the fact the banks did not advise earlier about deposit level requirements.

Returning to CHILTELCO problems, Dunleavy suggested that some form of tax relief might be an alternative. Allende did not indicate approval or rejection.

Allende continued to question why financing was such a critical problem for CHILTELCO. It was obvious it was not clear to him. Dunleavy explained again and Allende indicated then he understood the situation.

Dunleavy also pointed out that the CORFO shortfall now is about \$20 million, while we are about \$14 million ahead in payments. With this, Allende dropped the subject.

Dunleavy said it didn't make any difference who ran CHILTELCO, it still will need financing and adequate rates. Ine one of a series of anecdotes, Dunleavy commented that a telephone company was like a woman - always coming back after money. Allende laughed and said this was not so in Chile.

Allende said he would like to work out an amicable solution, but it would have to be all open and above board. Dunleavy responded that this is the only way we understand to do business.

Allende said he believed he understood the problems and the critical phase in the next 90 days. He said he would try to have something worked out in 30 to 40 days. He then stated he was appointing a commission to work on the problem, and said Toha would be our contact. Later he included Schats.

Allende repeated that he hoped we can work out a mutually satisfactory solution. He added that Chile would need some technical help. Dunleavy said we would provide it.

Dunleavy then pointed out to Allende he has three alternatives -- continue buy-out plan under convenio, buy all ITT equity immediately for cash, or "grab the company."

Dunleavy added that the day Allende "grabs the company, we go right to AID." He said ITT has worked hard to avoid this action.

Allende repeated his desire to work with us to reach a fair solution, He said the commission would determine a fair price for the company. At first, he said that price would be final and later did a 180-degree turn and said he would expect us to present a counteroffer.

Dunleavy told Allende if the price was not right, he personally would come back to fight hard for our price. Otherwise, he said, Holmes would be our representative in dealing with the commission.

Near the end of the meeting. Dunleavy said he would like to discuss the hotel problem: briefly. He said he had heard the government is interested in buying the Carrera hotel to use as a ministry office building.

Dunleavy said he could suggest a way to acquire the Carrera with very little cash. He proposed a swap of the CORFO loan on the San Cristobal for the Carrera, plus approximately \$1 million. The proposal apparently intrigued Allende, who commented that Dunleavy should be his Finance Minister.

Allende also had a proposal of his own, displaying a facet of capitalism in his otherwise Markist thinking. He said he had invented something which would indicate an incoming phone call while a person was speaking on his telephone. He suggested ITT might wish to develop it—but, he said, he wanted royaltiss. Dunleavy said we would be pleased to take a look at it.

Before the meeting adjourned, both Allende and Toha spoke emotionally about their telephones being bugged. They were assured the company was not in this business and Dunleavy offered as a gift some scanning equipment to check for tapping. Allende accepted the offer. Holmes also will check their phones.

In conclusion, Allende said he thought the people involved could get together and work out an agreement. Dunleavy told him he was taking him at his word. Dunleavy said if Allende bought us out for cash, his credit rating would go up around the world. If he did it properly, Dunleavy said, we would go to the banks and tell them how fairly we had been treated.

Dunleavy said also that if "you (Allende) grab the company, then that is your problem."

---Photographers and cameramen were allowed in for photos before the meeting broke. The conversation was taped.

In mid-afternoon, Toha held a press conference and said the topics of the meeting were CHILTELCO's expansion program and service improvements. He also said a commission was being formed and Schatz would preside over it.

The following morning, March 11, only El Mercario carried a story on the meeting, limited only to Toha's statement.

.7-

We prepared the following comment for J. Cappello to use in answer to media queries:

Proposed Draft of Press Statement to be Used ONLY If Needed

President Salvador Allende and executives of the International Telephone and Telegraph Corporation met Wednesday (March 10) to discuss expansion and service improvement projects and future plans of the Chile Telephone Company.

The Chile Telephone Company is partly owned by the Chile Development Corporation (CORFO), private Chilean stockholders and ITT.

After the meeting, a spokesman for ITT said the telephone company is continuing with the expansion and service improvement plans initiated in January, 1968.

Also attending the meeting were Interior Minister Jose Toha; Jaime Schats, superintendent of Electrical Services, and Benjamin W. Holmes, General Manager of the Chile Telephone Company,

HH:ba

ms. Cenapled

H. L. Edwards

Julian Hoyes

W. H. Kirkpatrick

March 26, 1971

FROM: L. Ralph Mecham

C. Jay Parkinson

W. E. Quigley

John G. Hall

G. Carey

D. D. Geary, Jr.

P. S. Bilgore

. Information below passed to me by ITT.

1. THE CHILEAG SUBIGIPAL ELECTIONS ARE SCHEDULED APRIL 4. THEY THVOLVE 3.8 MILLION REGISTERED VOTERS AND 8, 190 CANDIDATES

ANOLUE 3.8 MILLION REGISTERED VOTERS AND 8,100 CANDIDATES FOR THE -1,635 CITY COUNCIL JONS.

ALTHOUGH AT THE BOTTOM BUYG POLITICALLY, THE ELECTICES ARE CLEARLY THE FIRST TEST OF STRUCTH FOR THE MARKIST COALITION (UP) THAT PUT SALVADOR ALLENDE IN THE PRESIDENCY LAST FALL. THE RESULTS, IF STRONGLY 10 FAVOR OF THE MARKIST COALITION. COULD BE TRANSLATED BY THOSE PRESENTLY IN POWER AS A MANDATE WITH UNICK TO SWING THEM. "INTERVENSIBLE SOCIAL REVOLUTION." YOUARD THEIR ABBOURGED COALS WITH SOMETHING LESS THAN THE

HODERATION THUS FAR EXHIBITED. FOR EXAMPLE: SIZING UP THE APRIL 4 VOTE, LUIS CORVALAN, SECRETARY GENERAL OF THE COMMUNIST PARTY, TOLD THE PARTY'S PLENARY SESSICH RECENTLY: "IF UP OBTAINS THE SAME 36.3 PER CENT REGISTERED IN THE SEPTEMBER 4 PRESIDENTIAL ELECTIONS OR IF THE GAIN PERGENTAGEMISE IS SLIGHT, OUR FAILURE VOULD BE PROGLATUED INSIDE AND OUTSIDE THE COUNTRY AND OUR PATH WOULD BE HADE DIFFICULT. IF, ON THE CONTRARY, WE HAVE A LARGE GRIP, IT WE ORTAIN MORE THAN 50 PER CENT OF THE VOTES OR SOMETHING HEAR THAT, ANOTHER ROOSTER WOULD CROW, WE WOULD CROW AND WE'D BE IN A POSITION TO HIT THE ENERY HARDER. TO ACCELERATE FULFILLME OF OUR PROGRAM AND TO MOVE, FROM SOCIAL AND ECONOMIC TRANSFORMATIONS, TO INSTITUTIONAL CHANGES CONTEMPLATED IN THE UP PROGRAM AS RELATES TO THE CONGRESS, THE MUNICIPAL GOVERNMEN AND THE JUDICIARY SYSTEM. INEREFORE, WE NEED TO DO ALL POSSIBLE FOR A UP VICTORY. ..

System Confidential

THIS MEANS THAT THE MARXIST COALITION, IF VICTORIOUS BY A LARGE MARGIN, WOULD FEEL FREE TO MOVE TOWARD THE ELMINATION OF THOSE INSTITUTIONAL OBSTACLES THAT DAR THEIR OBJECTIVES: OF HOME INSTITUTIONAL OBSTACES THAT BAR THEIR OBJECTIVES; SUBSTITUTION OF THE PRESENT TWO HOUSE CONGRESS BY A UDICAMERAL PARLIAMENT, REVARPING OF THE DUDICIARY UNION THE MARXISTS HAVE TERMED 'BOURGEOISE' AND 'CUTDATED'. SINCE THESE GRANGE WOULD INVOLVE CONSTITUTIONAL AMENDMENTS, THE PRESIDENT CAN RESORT TO A LEGAL ANTIONAL REFERENOUM TO BRING THEM ABOUT. HE VILL TRY THE REFERENDUM PATH IF HE FEELS HE MUS A MANDATE. HE VILL

ME VILL TRY THE REFERENDIN PATH IF HE FEELS HE HUS A MANDATE.

6. THE PRESENT INDICATIONS FROM RELIABLEST SOURCES TO DAYS BEFORE THE ELECTION AND THAT THE MARXIST COALITION VILL REGISTER UPWARD OF AC PER CENT AND PERHAPS AS HIGH AS AS PER CENT CAGAINST SG.3 IN THE PRESIDENTIAL ELECTION.

7. WITHIN THE MARXIST COALITION, THE COMMUNIST PARTY AND THE SOCIALISTS WILL TAKE THE BIGGER SHARE OF THE VOTE, OVER 30 PERCENT, AND THE RADICALS LESS THAN 10 PER CENT. THE LAST YARDSTICK OF RELATIVE STRENGTH, THE 1959 CONGRESSIONAL ELECTIONS, GAVE THE COMMUNISTS 15.9 PER CENT OF THE TOTAL VOTES CAST, THE RADICALS 13 PER CENT AND THE SOCIALISTS 12.2 PER CENT.

8. ON THE OPPOSITION SIDE, THE REGULATION NATIONAL PARTY (20 PER CENT IN THE 1969 CONGRESSIONAL VOTE) IS EXPECTED TO MAKE SOME GAINS BECAUSE OF THE POLARIZATION OF AUTI-MARXIST FLEMENTS AS A RESULT OF THE 1970 ELECTIONS, HOWEVER, THEY ARE NOT EXPECTED TO OVERTAKE THE MAJOR POLITICAL FORCE IN THE COUNTRY, THE CHRISTINA DEMOCRATS WHO WON 19.8 PER CENT OF THE 1969

CONGRESSIONAL VOTE.

9. SUMMING UP: THE RELIABLEST PRE-ELECTION INDICATORS AT THIS POINT ARE THAT THE MARKIST BAND WILL FALL SHORT OF THEIR SO PER CENT OBJECTIVE. WITHIN THE MARKIST COALLITION, HOWEVER, THE READJUSTMENT OF RELATIVE STRENGTHS WILL PROBABLY BRING ABOUT A RESHUFFLING OF KEY CABINET JONS TO GIVE BIGGER REPRESENTATION TO THE COMMINISTS AND SOCIALISTS. THIS MEANS THE REMOVAL OF CABINET DESCRIPTION. CADINET DEMBERS REPRESENTING THE VEAKER PARTIES, LIKE THE RADICALS, FOR INSTANCE.

10. AN UNANSWERABLE QUESTION AT THIS POINT IS HOW A FAILURE TO SURPASS THE SO PER CENT MARK "AND THUS THE ABSENCE OF A NARDATE - WILL AFFECT THE FAR-GUT LEFTIST FRINGE THAT FEELS THE COALITION LACKS THE POWER TO ENFORCE THEIR DOGNA AND WART A VIOLET SOLUTION.

11. ANOTHER SUMMP WILL BE PREPARED JUST BEFORE THE ELLCTIONS BECAUSE OF THE SWIFTLY CHANGING SCENE. THE MANXISTS ARE AS BUSY ELECTIONERING AS THEY WERE IN THE PRESIDENTIAL ELECTIONS. PRESIDENT ALLENDE HAS PERSONALLY TAKEN AN ACTIVE HAND IN THIS. HE IS EVERYWHERE AND IS BUILDING A LARGE PERSONAL FOLLOWING. STUDENTS OF CHILEAN HISTORY SAY THAY HE HAS DEEN PERSONALLY THE PROPERTY OF CHILEAN HISTORY SAY THAY HE HAS DEEN PERSONALLY THE CONTROL OF THE PROPERTY OF IN CONTACT WITH THE PUBLIC AS NO OTHER PRESIDENT DEFORE HIM.



July 26, 1971

Mr. W. E. Quigley Vice Chairman of the Board The Anaconda Company 25 Broadway New York, New York 10004

Re: Chilean situation

Dosr Bill:

For some time Bill Merriam, Vice President of TTT here in Washington, has needled as about our Chilem stance, or at least what he believes it to be. He thinks we are too placed and if we are going to get whipped we might just as well fight. I have told him that based on my personal experience and what I have used about Marxista takeovers in other countries he is probably right. However, there are some differences in Chile and I am not sufficiently informed on the situation there to know if the general rule applies in Chile. He has finally placed some of his views in writing and I am enclosing a copy of his memorandum to me of July 23rd, together with other meterial that he sent.

You will note that Lyle Mercor of Kennecott indicates that his company is going to go all out on Chile, whatever that may meen. However, I will continue to take no action until I hear from you.

Sincerely,

L. Ralph Hacham

det G. J. Parkingon
J. B. M. Place __but W. H. Hittpattrick
J. L. Hayen

INTERNATION AL TELEPHONE AND TELEGRAPH CORPORATION

WASHINGTON OFFICE

1707 L STREET, N.W., WASHINGTON, D.C. 20036

CASLE ADDRESS - INTELCO - WASHINGTON

July 23, 1971

MEMORANDUM TO: Mr. Ralph Mecham

FROM: W. R. Merriam WDP

Yesterday afternoon after I had written the attached, Lyle Mercer called me. He came in at 9:00 this morning to tell me that his company had said to start going all out on Chile. We didn't have time to get in touch with you, but I thought that you might be interested in what I have shown to Lyle.

Attachments

/vdf

July 22, 1971

MEMORANDUM TO: Mesers, Mecham and Mercer

FROM: W. R. Merriam Original Signed By William R. Morrian

As you know, ITT doesn't sit still when its future is being jeopardized. All of us are surprised that Kennecott and Anaconda aren't raising more hell publically about the hosing they are about to get in Chile.

We have started an all-out educational campaign with the press to carry our points forward, and we are beginning to mount a letter-writing campaign from selected members of Congress to various members of the Administration to strengthen their backs on Latin American matters. I, of course, would ask you to hold all of these memos close to the chest, but I don't think that either of you can sit back and wait for something to drop in your lap.

Incidentally, our people in New York are trying to stir up your people in New York.

luat

Mr. E. J. Gerrity

Tuly 20 . 1971

J. V. Homer

Chile

You will recall that during your trip to Washington last week. I mentioned that one of the newspapermen with whom we were talking about Chile and the general Latin American situation was Bob Baskin. I mentioned that Baskin was writing a column in which he would refer to the ITT problem in Chile.

While the column is based on Congressmen Burleson's newsletter on the plight of American oil companies in Venezuela; Bob extended his discussion to cito the facts that (i) Castro confiscated everything in Cuba without payment, that (2) the Hickenlooper Amendment has never been applied and that (3) ITT--as well as the copper companies—faces expropriation (untainly) at the hands of the Allende government. Baskin even did us the favor of quoting "wire service reports" (rether than ITT spokesmen) on the \$150 million investment in Chiteleo and Allende's offer to put up only \$25 million.

I believe you will find this column from the <u>Dallos Morning News</u> of July 16 well worth reading.

Attachment

CG:

W. R. Merriam

I. P. Ryan

I. D. Nesl

B. A. Goodrich

R. Schmidt

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Dallas News

July 16, 1971

Boloeri II. Backin

Wounded Lion Attracts the Hyenas

Washington Bureau of The News

WASHINGTON—Recent developments in Latin America, aimed at American-business interests there, is causing increasing concern in Washington.

There is some evidence that United States power and prestige has been injured body by the Victnam war and that sations that once sought its support and encouragement are turning against this country.

Hyenes Gather

"When the lion is wounded, the hyenes

This is the prover's used by Rep. Omar Burleson of Anson in his current newsletter to describe the situation.

"About every piece in the world where the United States has an interest, whether R be military or economic, our position is eroding. Those nations which have been the day of their own self-interest, are showing an alienation not cyidenced.

since the end of World War II."

Threats on American oil companies operating in Venezuela are of most immediate concern. The Venezuelan government is about to enach logislation which would entitle it to take over direction of foreign oil firms at any time, which would alre-

grate the 40-year concession agreement made in 1943.

There is a possibility the day will come when Venezuela will take over all the physical equipment of the oil companies in addition to their direction.

This would follow a pottern already ", well under way in South America.

In Chile, the nationalization of U.S. firms operating there is under way at the direction of President Salvador Allende, an avowed Marciet-Leninist.

Percicularly under fire are the Americanoused copper companies. Folivis and Peru, copper-producing countries, are increasingly hastile to American firms.

"THE PRESSURES," Burleson says, "from the leftists are so strong in all
these South American countries that it looks as if they can not stop short of to-

tal confiscation."

Confiscation is nothing new, however, in Latin America. In the 1230s Mexico nationalized its oil industry, at tremendous cost to American companies. In the 1230s Fidel Carlos and over eventsize in Carlo, again at pract experts, to U.S. interests.

is about to enact legislation which would The U.S. Congress several years ago enable it to take over direction of foreign tried to do something about these confised firms at any time, which would above alony situations. It enacted the so-called

Rickenhoner amendment, sponsored by then Sen. Bourke 3. rickenhoper, R-Iowa, on foreign aid legislation.

The amendment provides that foreign aid would be cut off to any nation that confiscates American property and fails to pay for it within a reason he time.

Drawn-Out Talks

Unfortunately, the amendment has never been used, although there have been ammerous incidents where it should have been. Negatiations over what constitutes a fair price for seized property have dragged out long periods. Medicalle, American communics have fuffered.

Currensy. Civile is corparing to assistaalize the HT Corp actioners prospect were service records any the estimated values of the suscen is around \$16 millant, but the Chilean povernment has obleved to pury the group than \$15 million.

of Late fored similar posts of the oper Late American constrict, and accgants asymptotic posts from proceed after conferences.

There was a time when countries seeth of the border welcomed American investment, regarding it as a boon to their general economies, but now the trend seems to be to run the Americans out.

039

Mr. E. I. Gently

July 19, 1971

I. V. Homor

Situation in Chile

As we mentioned during your visit here last week, we already had started soft sell discussions on Chile with various media people interested in Letin America. We are continuing those discussions and preparing to step up the program.

At lunch today, I talked with Carl Migdall, an old friend of ours who is an expert on Latin America for U. S. News & World Report. When I said we wanted to get together with him and Howard Handlemen and other members of the staff to point up the problems ITT and other American companies face under the Government of Allande in Chile, specifically the accusations of mismanagement, poor service, vtc., Migdall said to me this is precisely what U. S. News & World Report had in mind in its reference this week (July 26 issue) at the bottom of the roundup on "Business Around the World."

I am attaching a copy of that roundup. Specifically call your attention to the latter part of it in which U. S. Nows & World Report states "President Aliende already has accused the U. S. companies of mismanagement, misuse of copper resources; and 'excessive profits'."

Migdail, who will be easer to talk to us later, said he and his colleagues are well aware that the allegations now being directed at the copper companies will be directed later at Chiltelco. We will keep you advised of developments with Carl and others.

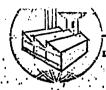
CO: W. R. Merriam

J. D. Neel

J. F. Ryon

B. A. Goodrich

B. Schmidt



Business Around the World

LONDON . PARIS . ROKE . TOKYO . RIO DE JANEIRO . WASRINGTON

A "wait and see" mood has enveloped many of the world's major stock markets after relatively lackluster performances in the first half of 1971.

* Exceptions: Bullish Japan and howly confident Britain.

It's clear why stock buyers on the Continent are wary. Economic and social conditions are unsettled. Industry is battling a profit squeeze. Monetary wees abound. Inflation has brought on restrictive credit policies.

Most important (actor of all: <u>European eyes are on the U.S. business scene.</u>

. Economic revival and a Wall Street bounce would restore optimism, rebuild confidence in European stock markets.

In short, says one European expert: *Key to a takeoff here depends on what happens in the U.S. over the next six months.*

A review of market conditions from our bureous in leading capitals:

London, Trade figures are favorable. Conservative Government is expected
to "reflate" the economy. Result: a 17-month high in prices of stocks.

Paris. The economy is brisker. Strike threats are easing off. Government suggests stocks are better than hoarding gold. So prices are edging up.

Bonn. Many stocks with sound earning potential are at 10-year-lows.

Rows. Gloom is the word. Stocks are lower than even "bears" predicted.

Hardest hit; wining, steel and insurance, down 15 to 41 per cent. The outlook,

from a stock specialist: "Bottom of the market has not been reached."

hend of last year, has reached an all-time high of 2,037.

Underlying the boom: expectations of <u>business upturn</u> by autumn...a <u>flood</u>
of <u>funds</u> into money market from soaring exports...a <u>splurge of stock buying</u> by
foreigners--490 million dollars so far this year.

>> France's bustling economy has brought an inflow of "unwanted" speculative dollars. Rumors that Paris might join Bonn in a joint-but small-currency revaluation later this year speeded up the flow.

Officials in Paris, mindful of West Gormany's monetary crisis earlier this year--elso triggered by "het dollars" --denied the rumors. Speculators refused to listen. They were gambling that France's economy is strong enough -- on paper, at least--to support a small revaluation of 4-5 per cont. Another factor: Speculators thought France might welcome a revaluation that could ease the inflation pressures now troubling the Government. However...

There is strong opposition to revaluation. <u>Industrialists</u> want to keep (ever)

sue of July 26, 1971, Volume LICE-No. 4

8. NEWS & WORLD REPORT

71

BUSINESS AROUND TI" TORLD -- (Continued)

the competitive edge they new enjoy in world markets. Economists fear that revaluation would lead to labor trouble, a ware explesion, a weakened frame.

Est bot: No revaluation of the franc, but a softening in apposition by Paris to greater flexibility in European exchange rates against the dollar...

That would make Bonn happy, strengthen ties between France and Germany.

> > To see how a <u>fresh approach to exchange rates</u> is helping one region of the world combat inflation, take a look at Latin America and its <u>'crawling peg.'</u>

Geverments, instead of endering abrupt and drastiq changes in the value—

The peg. of their currency against the dellar make <u>stow</u> mibbling adjustments.

Brantl. Argentina, Colombia and Urnguay use it.

The Hare's how the works in Brantle Since 1968, there have been 23 devaluations of the crussive renging from 65.61 per cant to 2.61 per cant. Official value has dropped by a third. At the same time, exports have seared. Foreign-exchange reserves of 1.2 billion dollars are highest in Latin America. There's a projected trade surplus of 400 millian. Inflation! Predictions are for a 20 per cent rate this year. That's high, but a far cry from yesteryear.

Main advantages of the crawling peg; says our Rio correspondent, are stability and an end to the temptation to speculate. Declares one businessman:

"Now we can spend our time running the company, not trying to second-guess the "Government's timetable for devaluation."

A grawling peg is not for everyone, Brazilians agree. But the idea may be spreading. A group of Japanese economists have proposed Japan adopt the system to revalue the yen over the next few years.

>> An economic jolt in coming out of Chile. Chilean Government has now approved legislation that would completely nationalize the all-important copper industry, largely at the expense of U.S. interests.

The move was not unexpected. President Allende called for such a step as part of his "read to socialism" program. And even before he took office, Chile had already gained controlling interest in two of the three big U.S. firms.

Big question now; Will the three companies -- Kennecott, Anaconda and Cerre -- receive fair compensation for their properties? Stakes are bigh. Value of the U.S. copper investment in Chile is estimated at 500 million dollars.

Remember this: Nove than coppor-company shareholders are concerned. The U.S. Government that means the American texpoyer could end up paying the three firms "expropriation insurance" ranging from 11 million to 360 million dollars.

Signs all point to a <u>heated dobate</u> over compensation. President Allende already has accused the U.S. companies of mismanagement, misuse of copper resources and excessive profits.*

Mr. Allende, it seems, intends to <u>bludgeon down</u> the settlement price.

There are <u>some restraints</u> on Mr. Allende. For one thing, Chile's Congress favors far more leniont indemnification terms than does the chief of state.

More important, Chile needs sid; <u>"unfair seigure" of firms won't help set it.</u>

The U.S. Government already has signaled multinational lending institutions that it may not go along with loans to countries plunging ahond and exprepriating U.S. Ciras. And U.S. approval is vital.

Concludes one expert: "Mr. Allende con hardly fail to not the messore."

M. S. HEWS & WORLD REPORT, July 14

BACKGROUND

The following has been prepared as background material on the status of negotiations between the Government of Chile, headed by Marxist President Salvador Allende Gossen and ITT for the sale of the Chilean Telephone Company (CHILTELCO).

On May 26, 1971, President Allende, in a meeting with ITT executives, stated that the Chilean Government had decided to nationalize CHILTELCO as quickly as possible. This was not unexpected since Allende had made nationalization of communication, along with copper companies, banks and other industries, a major plank in his election campaign. Through this appeal to the nationalist emotions, he attracted sufficient support from various parties to become the first avowed Marxist elected president in the Western Hemisphere.

Negotiations began in June between ITT and an Allende-appointed Commission to determine a "fair and just price" for the telephone company. The Commission proposed that the Government of Chile pay ITT \$23,876,000 in spite of the fact that company records—all of which had been audited and approved by the Chilean Government for almost 40 years—show the book value to be approximately \$150 million. Concession contracts and convenios previously agreed to by Chile contain provisions for cash buy out at no less than book value.

Negotiations between the Allende Government and ITT are continuing though company officials have been discouraged by the adamant position taken by the Chileans.

Moreover, clues as to the attitude of the Chilean Government toward

U. S. investors can be gathered from recent negotiations with other firms and
similar tactics may be used against ITT by Allende to justify expropriation at
a drastically reduced value.

An agreement signed by the Chilean Government in 1967, providing for an ambitious expansion program, also called for the progressive sale of up to 49% of ITT's stock in CHILTELCO to a Chilean Government development agency (CORFO). Since that time CORFO's interest has grown and as of January, 1971,

it was estimated that interest in CHILTELCO's capital were ITT, 70.1%, CORFO, 23.7%, and public, 6.2%. Thus, CHILTELCO is presently owned by the Chilean Government, the Chilean public and ITT.

Beyond the immediate situation of CHILTELCO and other U. S. companies in Chile, such arbitrary seizure of foreign property could have a serious affect on all U. S. investment in Latin America. If these factics succeed there, the domino effect may lead other Latin countries to look enviously at foreign-owned properties. Additionally, they may be encouraged to do so in view of the U. S. government's apparent hesitation to invoke-protective measures such as the Hickenlooper Amendment which requires a curtailment of U. S. foreign aid to any country which expropriates U. S. property without just compensation.

These developments could lead not only to a loss of U. S. investment, but a severe slow-down in the economic development of the Latin countries.

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J.Ryan. PERSONAL

July 20, 1971

R V O'Brion

LATIN AMERICA: "PLANS"

I spoke with Bob Schmidt this morning regarding our Congressional plans relative to Chile. We will prepare draft letters to be sent by appropriate members to key administration personnel inquiring as to what is being done to halt the continuous expropriation in Latin America; why the Hickenlooper Amendment and other protective statutes are not being used, and as to what the U.S.'s Latin American policy is.

Members to be approached for assistance will include:

Senator John McClellan Senator John Sparkman Rep Otto Passman Rep Thomas Ashley Rep Dante Fascell Rep Thomas Abernethy

All of the above either chair or serve on committees and subcommittees which are concerned with Latin American and American investment abroad.

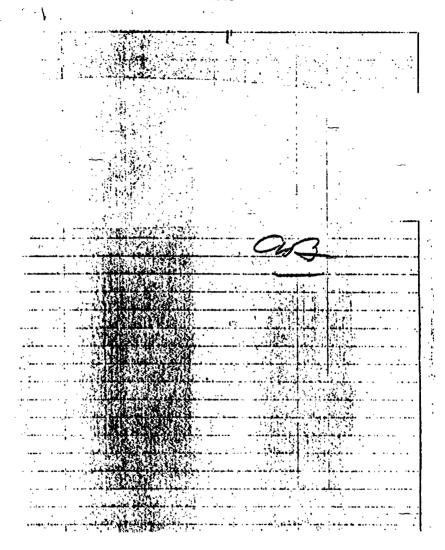
ce: R L Schmidt
B A Goodrich

PERSONAL AND CONFIDENTIAL

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MAR 1 6 1970

C. J. PARKERSON

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THE ANACONDA COMPANY:
1811 K STREET, N. W., WARIINGTON, D. C. 20008

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12 March 1970

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Hr. C. Jay Parkinson Chairman of the Board The Anaconda Company 25 Broadway New York, New York 10004

Dear Jay:

There is attached hareto a copy of the program for public with the National Foreign Policy Conference, which was held at the State Dopartment yesterday for business executives.

You will note that Charles Meyer was one of the speakers. He said that the approach of companies desiring to invest in Latin America should be on a partnership basis with those in the host countries. The only reference he made to Chile was that there had been a "Chileanization" of the Anaconda properties last year in that country.

Chuck Barber asked the Secretary of State if the United States Government had any policy with regard to trying to encourage the production of minerals that were not in adequate supply in the United States. He said that other governments; such as Japan, were actively assisting their nationals in seeking to develop new sources of minerals that are in short supply. The Secretary, in reply, said that the United States is very much interested in this area and that because of recent discoveries, there is plenty of oil to meet our demands. His answer, of course, was not responsive to Chuck's question.

Sincerely,

Amy

Enclosure

co: Mr. William E. Quigley,

10

CHILE EXPLORATION COMPANY
ANDES COPPER MINING COMPANY
SANTIAGO MINING COMPANY
CASILLA 65 - D. SANTIAGO, CHILE
CABILLA 65 - D. SANTIAGO, CHILE
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Subaldarias de ANACORIDA

October 9, 1970

Personal & Confidential

Mr. W. E. Quigley
The Anaconda Company
25 Broadway
New York, N. Y.

Dear Bill:

At a meeting held today the U. S. Ambassador stated some opinions and viewpoints on the present situation in Chile that will be interesting to you. They are generally as follows:

- 1) Allende will be ratified as President on the 24th with the approval of the Unidad Popular and the Christian Democrats. Accommodation to this position is becoming so widespread that it is not unlikely that the Alessandri supporters will also vote in favor of Allende. Thus it appears possible that Allende will be declared President by acclamation in the Congress on October 24.
- 2) There is no evidence of the rumors that a military takeover is possible here. There is very little activity in this area
 and it is only being talked about by a few retired military people.
 To be effective, a military take-over would have to have the support of the President and President Frei is totally against any
 move of this kind.
- 3) The Christian Democrats have emerged in Chile as the defenders of constitutional and democratic rights; this after having suffered a tremendous political defeat, their candidate Tomic coming in third in the recent presidential election. In the Christian Democratic leadership extreme leftists have moved forward to assume positions of power and have totally cast aside Radomiro Tomic.
- 4) Salvador Allendo is termed by the Ambassador to be an honest man, a man who will support his promises and live up to

his convictions, all of which, of course, are contrary to the free enterprise and capitalistic system.

- 5) The new government is expected to be very efficient and it will be dominated by the Communists who are the only capable group in the Unidad Popular. The Communists are well organized, intelligent, hard workers and leaders. They have allied themselves with Allende, a Socialist, and together with him they will control the power in the new government.
- 6) According to the Ambassador, Fidel Castro has advised Allende the following:
 - a) Don't break with the United States.
 - b) Continue to sell your exports in the dollar area.
 - c) Don't lose your technical personnel,
 - d) Don't get locked in by Russia; leave yourself flexible.
- 7) The forthcoming government has not yet revealed its basic program other than to state repeatedly that they will move to immediately nationalize the Gran Minería, banking, insurance and any Chilean monopoly that affects the common welfare. No timetable has been published or mentioned to carry out this program, but the Ambassador feels that nationalization will be given priority in the order of business.

The Ambassador states that he expects the policy of the U. S. government in regard to nationalization will be that a U. S. company nationalized will receive adequate, just and timely compensation. To questions as to what was adequate and what was timely, the Ambassador was very evasive.

8) Rumor has it, according to the Ambassador, that Gabriel Valdés has been promised the candidacy of the Unidad Popular for the presidency in 1976, with the support of the Communist Party. Meanwhile, he has been asked to serve as the Managing Editor of a new newspaper that will open soon, replacing the present "Diario Ilustrado", which new newspaper will be an apologist and defender of the policies of the new government from a position of friendly opposition.

Best regards.

JEB/ejp



OVERHERIT APPAIRS

January 15, 1971

Mr. C. Jay Parkinson Chairman of the Board The Anaconda Company 25 Broadway New York, N. Y. 10004

Dear Jay: .

Thus far I have visited the following people to discuss the Chile proposal that you gave to me during the American Mining Congress meetings:

State Department
Asst. Secretary Charles Meyer
Deputy Asst. Secretary John Hugh Crimmins
Director John Fisher, Office of Andean-Pacific Affairs
Other staff personnel

Mr. Ashely Hewitt, National Security Council staff (under Henry Kissinger)

Congressmen John Monagan

Mr. Pat Holt, Latin American specialist for the Senate Toreign Relations Committee

Dr. N. Althorism and Dr. Timothy Stanley, President and Exempted Vice President respectively, International Economic Volicy Association

Secretary of the Treasury David Kennedy Secretary of the Treasury Designate, John Connally

In addition, I have appointments or will have appointments to see the following people:

Arnold Mchmanoff of the National Security Council General George Lincoln, Office of Emergency Preparedness Robert Mclellan, Assistant Secretary of Commerce Maurice Stans, Secretary of Commerce Hr. C. J. Parkinson

-2- _

Jan. 15, 1971

If I were to summarize the reaction to date, it is that the proposal is innovative and represents creative thinking at a time that there are very few suggested solutions and ideas to cope with the Chile crisis. However, the reaction is generally negative, for the following reasons:

- (1) It is a bad precedent which other countries could be expected to follow and could accelerate nationalization,
- (2) It is probably illegal because of Section 620(g) of the Foreign Assistance Act of 1961 as amended. It reads:

"Notwithstanding any other provision of law, no monetary assistance shall be made available under this Act to any government or political subdivision or agency of such government which will be used to compensate owners for expropriated or nationalized property and, upon finding by the President that such assistance has been used by any government for such purpose, no further assistance under this Act shall be furnished to such government until appropriate reimbursement is made to the United States for sums so diverted."

- (3) With respect to the unguaranteed portion of Anaconda assets in Chile, the question was raised: Why should the U.S. taxpayers take on the obligation? My response to this was if the taxpayers were going to be reimbursed in the form of copper, it was really a loan, not a grant, and was a worthy loan at that!
- (4) The question was raised why should Chile be willing to pay the copper companies in copper, when she is unwilling to do so in cash, since copper is the equivalent of cash? Allende's proposed constitutional amendment suggests a compensation formula that apparently is much more favorable to Chile than would be payments in copper therefore, why adopt a less favorable scheme? Similarly, why would Chile want to, in effect, pay us so that we could develop additional copper supplies domestically, thus making us less dependent on Chile?
 - (5) The plan was criticized because there is no provision for determining the value of residual assets; however, since it is merely an initial draft, I don't see that this is a

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Jan. 15, 1971

fatal flaw. There is a Foreign Claims Settlement Commission under the Mickenlooper amendment procedures, and apparently the OPIC Board of Directors is the legal successor to the AID administrator under the guarantee program, and would have authority to arbitrate disputes. Likewise, the World Bank has a Board of Investment Disputes which, however, may be brought into play only when both governments refer the matter to the Bank, a procedure like that of the world courts.

(6) Related to the question of precedent is the fact that the proposal does not appear to cover service industries and manufacturing which, of course, are important components of the \$80 Billion of private investment abroad. I suppose it could be argued that in the case of Chile, ITT could be compensated in copper for a hotel, if it should be nationalized; however, the basic question is how compensation would be given in other countries if there should be nationalization.

Boiled down, it seems to me that the basic objections

- (1) The apparent illegality under 620(g), and
- (2) The possibility of establishing a precedent that could lead to wholesale expropriation, or which could not be applied in other countries where industry is nationalized.

Mr. C. Jay Parkinson

Jan, 15, 1971

Sincerely,

L. Relph Mechan

LRM/dp



1-7-71

This memorandum suggests a course of actrer to preserve and enhance the fundamental contribution of metals production to the United States economy and to protect United States private and public interests from discriminatory and confiscatory treatment, particularly where the related investments were made in areas and projects consistent with United States foreign and economic policy objectives.

Background

The United States is not self-sufficient in the production of a number of raw materials essential to the continued primacy of its metals producing industries; e.g., the orcs of iron, copper, aluminum, and nickel. Historically the insufficiency has been made up by imports from raw materials operations to a large extent financed by the United States private sector. There has been an ever-increasing movement on the part of raw materials producing countries to control the production and marketing of material mined within their borders and to expropriate without adequate compensation United States and other private interests in such production and marketing. This movement has culminated recently in action in Bolivia, Chile, the Congo, Cuba, Guyana, and Zambia, the cumulative effect of which will have a seriously adverse and long-range effect on the United States economy. In the case of Peru, for example, several United States investors were

2

forced in 1970 and early 1971 to give up properties in which many millions of dollars had been invested by actions that were confiscatory, albeit consistent with laws and decrees promulgated by the Revolutionary Government. In Mexico, legislation of long standing requires most raw materials operations to be controlled by national interests. Similar nationalistic sentiments are expressed from time to time in such raw materials producing countries as Australia, Canada, and Jamaica. Perhaps the most serious action to date, and the one that is likely to have the most immediate effect on United States interests and the United States economy, is the case of Chile.

<u>Chile</u>

The constitutional reform bill submitted to the Chilean legislature by President Allende on December 22, 1970 to expropriate the large metals producing operations in that country has now been officially supported by the Christian Democratic party and thus is assured of enactment in the very near future.

This bill provides for nullification of all prior decrees, contracts, or agreements, except to the extent that such arrangements benefited the State, and substitutes therefor a complete confiscation of all property, rights and interests of the owners. The purported indemnification is so designed as to be theoretical only and of no economic substance.

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Accordingly, it is inconceivable that this action of the Chilean Government could be interpreted in a manner which would not require the immediate application of the Hickenlooper Amendment and render the United States Government (acting through the Agency for International Development) fully liable under contracts of guarantee.

Suggested Course of Action

On the assumption that the position of the United States

Government is to avoid a direct confrontation with the expropriating

Government, and on the conviction that it is in the best interest

of the United States to foster self sufficiency in certain basic

metals producing industries, it is suggested that immediate action

be taken through direct/negotiations between the United States

Government and the expropriating Government.

This might best be accomplished to the benefit of all concerned by a United States proposal to the expropriating Government along the following lines:

The expropriating Government would agree to pay, in United States dollars in cash, the fair net value of the properties of the United States investors provided the funds so required for such payments were made available, at least in part, by a loan from the United States Government. This loan would be repaid over an agreed period of years by the delivery of the raw materials in

question to the United States Government. The United States investors, in turn, would apply the payments received in the expansion of their respective United States metals producing and fabricating facilities to render the United States self-sufficient in these important basic industries. Major United States companies would also contract to market the materials received by the United States Government in liquidation of the loan to the expropriating Government. The expropriating Government would assume all existing debts of the expropriated companies.

Advantages

By the suggested procedure, or some similar arrangement, the following advantages seem apparent:

A. For the expropriating Government:

- (1) Accomplishes prime objective of expropriation of private interests in raw materials operations.
 - (2) Payment is made over an agreed extended period.
 - (3) Maintains some element of international integrity.
- (4) Provides for marketing in part of the rew material, thereby alleviating an anticipated major problem in the future.
- (5) Prevents disruption of internal and external financial condition.
- (6) Puts to rest demagogic appeals to restore basic resources to national ownership.

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B. For the United States Government:

- (1) Avoids decision regarding application of the Hickenlooper Amendment.
 - (2) Avoids other forms of confrontation with expropriatin
 - (3) Provides raw materials which otherwise would have to be imported into the United States.
 - (4) Protects against payment of AID guarantees.
 - (5) Develops more viable United States metals industry without direct subsidization.
 - (6) Probably forestalls a complete totalitarian regime in countries such as Chile and the spread of Communism to other Latin American areas.
 - (7) Protects loans by Export-Import Bank and private financial institutions.

C. For the United States private sector:

- (1) Receives at least minimal compensation in usable currency.
- (2) Makes funds available for immediate investment in United States mining development.
 - ... (3). Avoids long and extensive litigation.
- (4) Protects, to some extent, the hundreds of thousands of shareholders against substantial loss.

6

Clearly the course of action suggested may not be of any interest to the expropriating Government. It must be recognized, however, that the United States private sector has little bargaining power under present conditions and, unless the United States Government makes some immediate and decisive move, confiscatory legislation will soon be enacted the consequences of which will be catastrophic to United States citizens and to the economic well-being of the United States.

95-709 O-78-pt. 2-35



February 4, 1971

Mr. Arnold Nachmanoff Senior Staff Member National Security Council Executive Office Building 17th & Pennsylvania Avenue, N. W. Washington, D. C. 20506

Dear Mr. Nachmanoff:

Thanks very much for the opportunity of sitting down and chatting with you the other day about what we consider to be the very serious situation in Chile, not only for our own economic interests, but also to the foreign policy posture of the United States Government. In the event you have not seen the enclosed speech by Senator Javits which I regard as exceptionally significant, I am enclosing a copy. Let me call your attention particularly to page 3 and the top of page 4 which relates to Chile. This is precisely the kind of statement that I had in mind when I suggested to you that I hoped our government would quietly, but firmly, inform the Government of Chile of the severe repercussions that would occur if Chile expropriated the property of American investors without fair and adequate compensation.

Hr. Arnold Nachmanoff

-2-

Feb. 4, 1971

The fact that we were soft in Peru and Bolivia, and now we are apparently soft in Chile, can only whet the appetites of the nationalist extremists in every undeveloped country on the globe. In light of the obvious efforts of the Soviet Union, and to a lessor extent, China, to encourage such tendencies toward expropriation and nationalization for geopolitical power politics reasons, our government must take a strong stand, quite apart from the obvious economic interests of Anaconda in such firmness. The assured supply of vital metals is as important to the United States as is our position in Viet-Nam.

Again, thanks for the opportunity to visit you. I am closing by attaching a memorandum outlining briefly the situation as it prevails in Chile, with a brief history.

If I can furnish you additional information or offer any assistance, please let me do so.

Sincerely yours,

L. Ralph Mecham

LRM/dp

Enclosures

P. S. Judging from a <u>New York Times</u> article, dateline Santiago, the U. S. Ambassador communicated a stern warning to the Chilean Government. If this is true, and of course the source is unofficial, that is all to the good. This would be particularly good if the Chilean Government regards our Ambassador as having creditability.

L.R.M.

There week and I carful on the abusador the afternoon the had attained shortly before from how Marchenicagagement with Continuosian, Site Continues. Mation, had of CAP Good will wealt he had with on Meading thick that buckers were scholated to that is The Beth perturber Copperately, at the lest minute the pality of to one indued to the four mentioned at suffer an expected larger groups this to executively on the Sechon der's phayations ogy the weight on the Bill gal described publine limits on both mothing portion one or Contravalor then reported he went in to blilly tell Finister of Their Shat formment opposed was used at all satisfactory to U.S. and their in en bunden terms applied to testiment being given to lindin and Epotie a in sense that fundreich squage on these companies is very after and will be displywaris by let barners commenty Continued continued this or funeral in some soin and sign to that Thinks

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with Minister of Mines

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Memorandum

February 18, 1971

To: File

Re: Byrne-Cyr meeting with Ed Korry

Ambassador Korry lunched with Cantuarias, Soto and Matus. They expressed their desire for the good will of the U.S. Korry explained the U.S. was looking at the actions not the words and cited the Constitutional Amendment, each squeeze on Exotica and Andina, and a variety of discriminatory actions against U.S. interests as being actions opposed to the kind words. They stated the Government was seeking permissive wording in the Constitutional Amendment to allow the Government to negotiate. They also indicated that there might be some help on the Exotica and Andina cash problem but were very indefinite.

We advised and discussed with Ed Korry the adverse nature of such permissive legislation. He thought it might be the best alternative to the punitive type legislation that had been proposed.

Ed Korry advised also that he was informed that Amunategui and Hollis were working on a draft for changing the Constitutional Amendment in the Chamber.

Krost Cyr

(19)

CONFERENCE

WEQ Notes Re: Meeting with OPIC Representatives February 19, 1971 Town you

I had gone to Ambassador Korry and requested that he come to our assistance by recommending to Exim that it give its consent to the BCI loan and this would give us sufficient funds possibly to continue the operation and meet the obligation to take on March 31, 1971, provided we did not pay the toll charges to CCC. That feature I had previously discussed with the management of CCC and they were in agreement that we could defer those payments, at least for a reasonable time. Mr. Korry, however, felt that any assistance along the lines that I had anguested would merely show weakness on the part of the U. S. Covernment and Exim and was not the better procedure to follow, but rather that we should confront Codelco and the Central Bank with the fact that we could not under the present tight liquidity

situation continue to operate Exotica and force them into some action of temporary financing, loans or increased equity participation to permit Exotica to continue and to meet its other obligations.

I advised him that I had met just previous to this meeting with Mr. Sauer and some representatives of Exim, and that they also took the position that now was the time to bring pressure on the Chilean Government and that they did not feel inclined to consent to the BCI loan and that they felt our position should be a strong one and that we should go to Codelco and advise them of the fact that we could not continue the operations unless they came forward with loans, equity contribution, or some source of financial aid.

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DEPARTMENT OF STATE

Washington, D.C. 20120

July 13, 1971

(hating)

Mr. John B. M. Place President The Anaconda Company 25 Broadway New York, New York

Dear John:

On behalf of the Secretary I want to assure you that the views and recommendations contained in your letter of June 30, 1971 will be carefully considered.

As you know, we are well aware of your problem, and we will continue to do everything we can in this complex and difficult matter. It was good to see you on June 16, and we will be staying in touch with you and your representatives as the situation develops.

With best regards,

Sincerely,

humi

Charles A. Meyer

Tomo Concerna PAUL S. BILGORE To Mr. JAM Place John - Here is The mens To which I referred in our convenation with Kerry fast might. Lalph Trucken advises That he played it around state, Treasury, White House and eathin minhers of Congress. Last February. He regists That the upgrowth met with no enthusiam. Hong apparently thinks it might elicit a hetter reaction mow that the situation has digenerated from this juneary.



September 24, 1971

Mr. John B. M. Place President The Anaconda Company 25 Broadway New York, New York 10004

Dear John:

Enclosed for your information are tear sheets from the Congressional Record containing comments by Senator Church of Idaho prior to his introduction of a series of articles on Chile by newspaper correspondent Douglas Wilson. Some of Wilson's comments are dated, but more perceptive than most news articles.

Please note the sentence spoken by Senator Church, "I think the United States Congress will fully back the President on this matter of adequately compensating American owners for their expropriated property."

Even though it is a lukewarm statement overall, I would recommend that you send a letter of thanks to Senator Church, since few members of Congress indeed have bothered to speak out on this matter. Moreover, Senator Church is Chairman of the Western Hemisphere Affairs Subcommittee of the Senate Foreign Relations Committee. I spent some time with its principal staff man, Pat Holt.

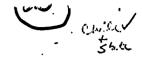
Sincerely,

L. Ralph Mechan

ck
Enclosure
[cc: William E. Quigley
William M. Kirkpatrick
Paul S. Bilgore

telecopula O germany

MEMORANDUM FOR THE FILES



Secretary Rogers opened the meeting by saying that he and the President had grave concern over the Chilean situation and the expropriations that were taking place, and that he felt his statement of last week indicated the concerns of the U. S. Government. He stated there appeared to be little leverage that the Government could use against Chile, but that they would take all actions open to them. He discussed his meetings with Foreign Minister Almeda of Chile during the opening of the U.N. He stated he had never been more rude to any other diplomat. Rogers said he attempted to press Almeda to stop the copper expropriations and filing for excess profits and taxes. Almeda is reported to have discussed this with Allende on his return to Chile. Nothing happened. He then asked each company to describe its situation.

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Both of our spokesmen agree the State Department's Latin-American policy is actually not concerned with today, but is motivated by its fears of what might happen rather than the actions which would preserve investment and normal relations today.

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Bank of America (Bill Boland)sp
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Ralston Purina

ITT Corporation - Jack Guilfoyle and J. R. McNitt

23

Fovember 24, 1971

ir, John B. M. Place Precident The Anconda Company 25 Broadway Ken York, New York 10004

Dear Johns

This will confirm the information I gave to you on the phone on my role with respect to the Cannon Americant to the Fereign Assistance Act. Besignally the Carrier I was take which the Michael was such that the Michael was such and which expressions to a country which expressions American country which expressions and prompt confirmation.

To sow up, I did nothing because I understood our policy was not to be involved in such hard-line-accourse against Galle.

After we talked, I talked to Cannon's administrative conletant who said Cannon initiated the heart has no life con common be so departy electrically at a second of the line control of the line in the said St. In the life was no yet arother precedent of American weakness Italia, to further expropriations.

As you may recall, Senator Dominick had on even nove harsh essendment for introduction which he willidays often passage of the Cauron Augminent but recerving the right to bring it up next year. Likedian, Secretar Markor Carlor of Thebully prograted a solubed reserved. Cook's office called no to ask for information on our Chile experience. The call came late in the externoon, and it was delivered the following novolug largely coffined to Paul Bilgore's newspanden. However, that evening the Counon Amendment was debated and adopted, so the information errived too late for Seageer Cook, to use it.

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Page 2

The last time I talked to Senator from about Chile was in February or early March when we were in the process of distributing our first menorandum. Cannon was interested and sympathetic although he did say that we should be prepared to take losses on decisions to invest abroad rather than at home.

Meanwhile, the Cannon Amandment was included as part of \$2320, one of the two foreign aid bills adopted by the Senate following the defeat of the first bill. \$2320 is now in conference between the Senate and the House. The Nixon Administration is trying valiantly to kill the smeadment.

Sincorely,

I. Palph Rechem

ck

cc: Herbert M. Weed

February 8, 197

Mr. Pierce N. McCroary Mr. C. D. Michaelson Mr. Frank R. Milliken

I am informed that representatives of ITT, possibly including Harold Geneen, will be meeting with Mr. Nachmanoff of Henry Kissinger's office in Washington today to explore the White House attitude toward dovelopments in Chilo.

I am informed also that C. Jay Parkinson has written a strongly worded letter to Dr. Kissinger and Secretary of State Rogers demanding action of some sort by the U. S. Government in regard to the proposed expropriation of Anaconds's interests in Chilo. I am endeavoring to get additional information concerning Mr. Parkinson's letter.

0. E. D.

GEDiefg

bcc: Mr. W. B. Jones Mr. L. Ziffren Mr. Pierce N. McCroary Mr. C. O. Michaelson Mr. Frank R. Milliken gir. Chiri

As reported a few days ago, representatives of ITT mot with Arnold Nachmanoff in Henry Kissinger's office to discuss the Chilean situation. I am informed that Nachmanoff stated that Dr. Kissinger and his staff were very pleased with Senator Javits' speech at the OPIC seminar in New York and would like to see similar speeches by other prominent public officials along the same lines. Nachmanoff reportedly indicated that this approach is believed more likely to be effective than pleas to the State Department.

There is also a report that the State Department has warned Chile about the ramifications of the proposed expropriation of the large mining companies. I have not been able to verify this report.

G. E. D.

GED:ofg

cc: Mr. W. B. Jones Mr. L. Ziffren

Chile Ad Hoc Committee, Member

Here is a rough draft of what we discussed this morning. Please feel free to call on Jack Neal or me anytime you have a question. We, of course, would be most anxious to hear from you about any action you have taken in the three so-called pressure points.

Regards

Bill

2-9-71

W. R. MERRIAM ITT Washington Relations MINUTES

CHILE AD HOC COMMITTEE MEETING

FEBRUARY 9, 1971

For the benefit of the representatives who did not attend the first get-together on Chile, Neal and Merriam gave some background material and reported on our visit at Kissinger's office on Friday. The de Onis article and Javits speech of last week were discussed in depth. It was suggested that more speeches like the one Javits gave be urged on various members of Congress during the next few weeks.

Anaconda does not expect its expropriation to go through until at least June because friends of the company are doing everything they can to delay the legislation in Santiago. After the amendment is passed, which it will be, sixty days must clapse before the takeover.

All conferces were urged to make a presentation to Kissinger's office (only ITT and Anaconda have done so) and at the State Department to Irwin, Rogers, Meyer and possibly the deak officers. Jack öxplained that aide memoires should be left because these papers, or at least paraphrased versions of them, are sent to Santiago to the American Embassy.

A further pressure point was discussed: the lending agencies. Ralph Mecham of Anaconda said that World Bank people had been in Santiago this past week talking to officials of the Chilean government telling them that if they went ahead with their takeovers, it was quite possible that no more loans would be made. This was an exploratory and low-key visit.

The Anaconda rop explained the <u>Wall Street Journal</u> story of today saying that the State Department had practically put a gun to their head and urged them to accept the sale of 51 percent of their property to the Chilean government. Now that expropriation is a reality and the fact that the price given Anaconda for its 51 percent amounts to about 40 percent of the value of the mines, All has told Anaconda that the 60 percent of the uncollected dollars were not eligible for guarantics—after State practically forced Anaconda to accept the lesser amount from Chile. At the February 1 speech of Senator Javits in New York, an Anaconda vice president facetiously mentioned AlD's statement on not paying the guaranty, and he thought he should mention this in the annual report. Hence the story today.

The Ralston Purina rep is quite concerned about a bitt being pushed by Representative Pelley of Washington which would embarge all fish and fish products exported to the U.S. from countries which seized boats outside the twelve mile limit. This in itself is not so bad, but he is afraid that other

products may be included and it might affect many American companies, who are sending products stack to the 0.8. Hearings will begin as this bill in California in a couple of weeks.

All of those present agreed to exchange information with each other using this office as a command post. They also were anxious to continue the Ad Hoc Committee, and the next meeting has been tentatively set for the first week in March. If, however, an emergency arises before that date, we will call a special meeting.

CHILE AD HOG COMMITTEE MEMBERS

Mr. Kimball C. Firestone
Firestone Tire and Rubber Company
1001 Connecticut Avenue, N. W.
Washington, D. C.
ME8-0300

Mr. Francis D. Flanagan W. R. Grace and Company 1511 K Street, N. W: Washington, D. C. NAS-6424

Mr. William C. Foster
Ralston Purina Company
1730 Rhode Island Avenue, N. W.
Washington, D. C.
-223-5303

Mr. Jack Gilbert Charles Pfizer and Company 1700 Pennsylvania Avenue, N. W. Washington, D. G. 20006 659-3515

Mr. Robert L. James Bank of America 730 - 15th Street, N. W. Washington, D. C. NA8-8181

Mr. C. T. Mark Dow Chemical Company 408 Executive Puilding Washington, D. C. 296-1915

Mr. Ralph Mecham The Anaconda Company 1511 K Street, N. W. Washington, D. C. 393-5867 Mr. Lyle Mercer Kennecott Copper Corporation 1775 K Street, N. W. Washington, D. C. 20036 293-7090

Mr. Jack D. Neal ITT Corporation 1707 L Street, N. W. Washington, D. C. 20036 296-6000

Mr. William R. Merriam ITT Corporation 1707 L Street, N. W. Washington, D. C. 20036 296-6000

Mr. Bill Wickert Bethlehem Steel Corporation 1000 - 16th Street, N. W. Washington, D. C. 20036 393-4720

OCT 26 1971

G.E.D.

MEMORANDUM

give chiv

TO: Mr. Gilbert E. Dwyer

FROM: Mr. Lyle R. Mercer

DATE: October 22, 1971

RE: - Meeting on Chilean Situation

I am attaching a memorandum prepared by the International Telephone and Telegraph Corporation which covers a meeting with Secretary of State Rogers held on October 21 with regard to the expropriation of private U.S. properties in Chile.

The first knowledge I had of this meeting was on Wednesday of this week when I was asked who would be attending from our company. I assume that we were invited and that there was some good reason why we did not have a representative there.

It would indeed be most helpful if, in fact, our company was invited to the meeting for this office to be informed of that fact and of the reason for not accepting the invitation. Washington reps are expected to be knowledgeable of not only what goes on in Washington but also of the activities of their companies involving the Federal Government.

LRM csh

Attachment

cc: Mr. Frank R. Milliken Mr. C. D. Michaelson

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